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SUNCOR ENERGY INC.
2000 ANNUAL REPORT

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the energy difference



SUNCOR ENERGY INC.

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This annual report contains forward-looking information.
Please refer to the Overview*** on page 29.

The strength of Suncor's share price is a reflection of our record
of generating high returns for our investors. The Company's approach
to accomplishing this – production growth, a large resource base,
profitability, value-generating integration,
and our vision of sustainable
development – is a formula
that is unique to Suncor.



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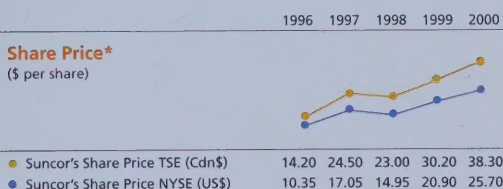
Financial Highlights

Year ended December 31 (Cdn\$ millions)	2000	1999	1998
Financial			
Revenues	3 388	2 387	2 070
Operational earnings	427	167	175
Net earnings	377	186	178
Operational cash flow	1 009	591	580
Cash flow from operations	958	591	580
Capital and exploration expenditures	1 998	1 350	936
Total assets	6 833	5 176	4 104
Net debt	2 236	1 334	1 289
Dollars per Common Share			
Net earnings*	1.58	0.74	0.81
Cash flow from operations*	4.11	2.51	2.64
Cash dividends	0.34	0.34	0.34
Key Ratios – %			
Return on capital employed	16.6	8.3	9.5
Return on shareholders' equity	16.5	10.3	12.3
Debt/debt plus shareholders' equity	47.7	38.9	46.7
Net debt/cash flow from operations (times)	2.3	2.3	2.2

* Per share amounts for earnings and cash flow from operations are after deducting dividends on preferred securities issued in 1999.

Share Price*

(\$ per share)

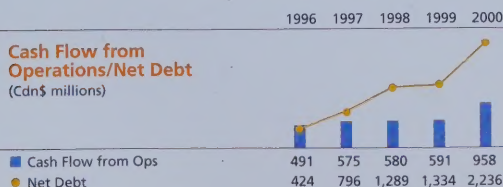


Suncor's 2000 year-end Canadian share price increased 27% over the 1999 year-end, and 170% since 1996 year end.

*Suncor stock split in May 2000. Previous years have been restated to be comparative to year-end 2000 price.

Cash Flow from Operations/Net Debt

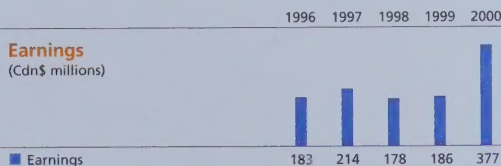
(Cdn\$ millions)



Suncor's cash flow from operations increased for the eighth consecutive year and supported Suncor's growth initiatives. At the same time net debt increased as Project Millennium construction proceeded as planned.

Earnings

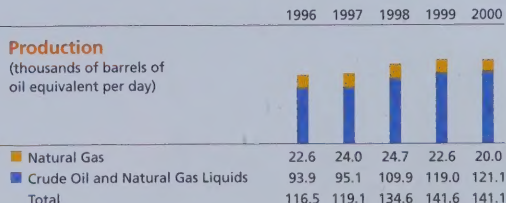
(Cdn\$ millions)



The earnings increase of 103% in 2000 reflects the benefit of higher commodity prices, increased sales volumes, improved refining margins and reduced income taxes. These factors were partially offset by crude oil hedging losses, higher costs, one time costs for restructuring Natural Gas, Project Millennium start-up costs, and a write-down of the carrying value of the Stuart Oil Shale Project in Australia.

Production

(thousands of barrels of oil equivalent per day)



Oil Sands achieved record production in 2000, averaging 113,900 barrels/day. This was short of the production goal of 115,000 barrels/day due to three weeks of extremely cold weather in December. Divestments and natural reservoir declines reduced production in Natural Gas.

① **MIKE O'BRIEN**

*Executive Vice President,
Corporate Development and
Chief Financial Officer*

② **MIKE ASHAR**

*Executive Vice President,
Oil Sands*

③ **DAVE BYLER**

*Executive Vice President,
Natural Gas*

④ **TOM RYLEY**

*Executive Vice President,
Sunoco*



⑤ **BARRY STEWART**

*Executive Vice President,
In-situ and International Oil*

⑥ **RICK GEORGE**

*President and
Chief Executive Officer*

⑦ **SUE LEE**

*Senior Vice President,
Human Resources
and Communications*

⑧ **TERRY HOPWOOD**

*Vice President, General Counsel
and Secretary*



Suncor Energy at a Glance

Suncor Energy Inc. is a growing Canada-based integrated energy company with more than \$6.8 billion in assets and production of 141,100 barrels of oil equivalent per day. Suncor's common shares (symbol SU) and preferred securities trade on the Toronto and New York stock exchanges. Suncor's integrated businesses include Oil Sands, Sunoco and Natural Gas. Suncor is commissioning a demonstration plant in Australia called the Stuart Oil Shale Project.



Earnings
(percentage)



Cash Flow Provided
from Operations
(percentage)



Capital Employed
(percentage)



● Oil Sands
● Natural Gas
● Sunoco

● Oil Sands
● Natural Gas
● Sunoco

● Oil Sands
● Natural Gas
● Sunoco

Oil Sands

produces and markets custom-blended refinery feedstocks and diesel fuel from its mine and upgrading facility near Fort McMurray, Alberta.



- Record production: average of 113,900 barrels per day.
- Project Millennium 70% complete at year-end.
- Work progressed on TransAlta Energy Corporation's co-generation facility, which will help meet Oil Sands energy needs for many years.
- Filed for regulatory approval for proposed Firebag In-situ Oil Sands Project, a key component of Suncor's vision to increase Oil Sands' production capacity to approximately 400,000 to 450,000 barrels per day in 2008.

Natural Gas

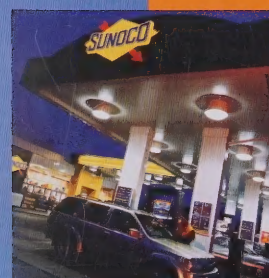
explores for and produces natural gas primarily in Western Canada to provide energy for Suncor and customers throughout North America.



- Following a strategic review, repositioned the business to sharpen focus on natural gas and improve operating efficiency, resulting in a reduction in annualized operating costs of approximately \$15 million.
- Selected three western Canadian core asset areas where Suncor has strong expertise and significant assets on which to focus combined exploration and development efforts.
- Completed strategic divestment of non-core and oil-weighted properties to generate proceeds of \$314 million.
- Exceeded revised annualized production target of 27,000 BOE/d (270 mmcf/d). Produced 27,200 BOE/d with a ratio of 92% natural gas at December 2000.

Sunoco

refines and markets petroleum products and chemicals through a refinery in Sarnia, Ontario, a network of more than 500 retail gasoline outlets across the province, and a marketing business that provides energy products and services to Ontario customers.



- Highest earnings on record: \$81 million; return on capital employed (ROCE): 20.5%.
- Improved the Sarnia Refinery crude utilization by 3% over 1999.
- Increased share of refined petroleum sales in Ontario to 17% from 16% in 1999.
- Continued to evaluate technological alternatives and strategic options to position Sunoco to meet legislation limiting sulphur in gasoline.
- Completed plan to realize higher margin on chemical solvents by commissioning a specialty solvents plant at the Sarnia Refinery.
- Grew retail natural gas customer base to over 130,000 commercial/residential accounts in Ontario.
- Piloted internet-based marketing site to enhance brand loyalty.

⑤ **BARRY STEWART**

*Executive Vice President,
In-situ and International Oil*

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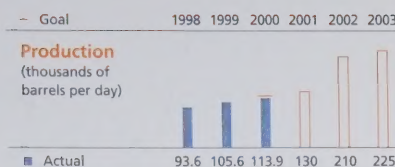
*Executive Vice President,
Natural Gas*

④ **TOM RILEY**

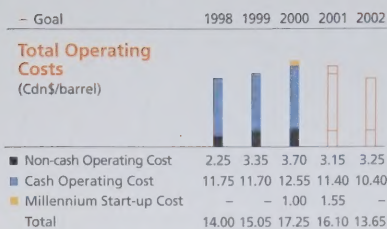
*Executive Vice President,
Sunoco*



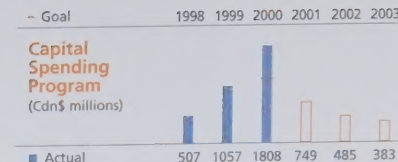
- 2001: Commissioning of Project Millennium is expected in the second half of the year. The project is designed to increase production capacity to 225,000 barrels per day by 2002. Average production goal for 2002 is estimated at 210,000 barrels per day due to planned maintenance shutdown work that year.
- 2001: Begin construction of the Firebag In-situ Oil Sands Project. (Subject to Suncor Board of Directors and regulatory approval.)
- 2002: Target range of cash costs per barrel: \$8.50-\$9.50 (as described on page 34).
- 2005: Firebag Project Phase 1 and expanded upgrader targeted to be on stream. Production target 260,000 barrels of oil per day.



Oil Sands achieved record production of 113,900 barrels/day in 2000. Project Millennium, scheduled to start-up in 2001, is designed to increase production capacity to 225,000 barrels/day by 2002, but due to a planned plant maintenance shutdown, production is expected to average 210,000 barrels/day in 2002.



Total operating costs exceeded the 2000 goal primarily due to the higher cash operating and maintenance costs. In 2002 cash operating costs of \$10.40/barrel currently reflect a higher natural gas price assumption compared to 1998 estimates, and the impact of planned maintenance work in 2002.



Capital spending on Project Millennium accounted for 91% of capital spending at Oil Sands in 2000 and was the primary reason for spending being higher than goal. Future spending goals could change depending upon regulatory and Board of Directors' approval.

Developing Future Energy Options

Alternative and Renewable Energy

In 2000, Suncor announced plans to invest \$100 million in alternative and renewable energy projects over the next five years.

Since that announcement, Suncor has created a long-term strategic plan and reviewed more than 700 investment opportunities. The goal is to develop renewable energy sources – wind, solar, biomass, landfill gas and run-of-river hydro-electricity – that have a minimal impact on the environment, and create a viable and profitable energy business.

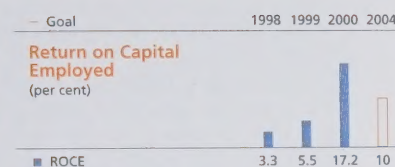
Stuart Oil Shale Project

During the year, Suncor continued efforts to commission the Stuart Oil Shale Project in Gladstone, Australia, which is testing the use of new technology to extract oil from oil shale.

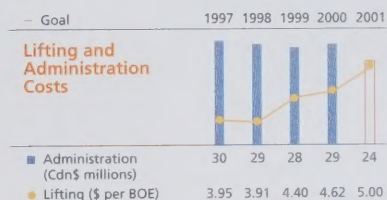
The Company has experienced environmental and technical issues that it intends to resolve before making any decisions regarding commercial development. Suncor plans to spend up to \$22 million to modify the plant to improve operating and environmental performance.

At Suncor, management believes demand for energy will continue to grow, and for the foreseeable future the world will need both traditional and alternative sources of energy. Through initiatives like the Stuart Oil Shale Project and its \$100 million commitment to alternative and renewable energy, Suncor is investigating a variety of options.

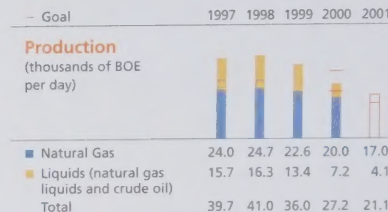
- Achieve a sustainable 10% return on capital employed in 2004 at mid-cycle pricing levels.
- Produce 21,000 BOE/d (210 mmcf/d) on an annualized average basis with new volume additions of 4,600 BOE/d (46 mmcf/d) in 2001.
- Achieve general and administrative costs of \$24 million and field operating expenses of \$0.50 per mcf.
- Continue development of coal bed methane strategy and begin production in the fourth quarter of 2001.
- Expand Suncor's sources of revenue by providing new service offerings to the resource sector, beginning in 2001.



Strong prices and reduced operating costs helped Natural Gas achieve a return on capital employed (ROCE) of over 17% in 2000. Target ROCE for 2004 is 10% based on mid-cycle commodity prices.

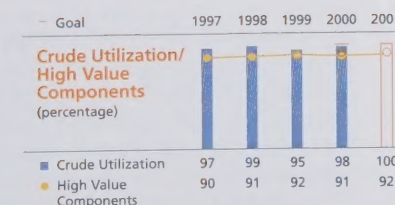


Divestments and streamlining of operations reduced total operating costs.

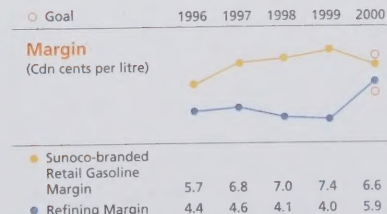


Oil-focused property divestments and natural reservoir declines resulted in lower production in 2000 versus the 2000 goal and 1999 levels. In future there will be a sharpened focus on natural gas production.

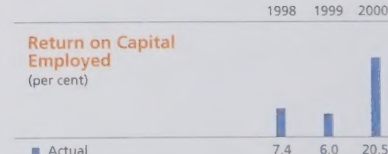
- Continue to enhance process control and energy efficiency at Sarnia Refinery to further the goal of being ranked in the top third of comparable size refineries in North America by 2002.
- Finalize investment plan to meet legislation limiting sulphur in gasoline to a maximum of 30 parts per million post 2004.
- Continue to expand and grow the network of cardlock sites and enter into the truck stop business by developing two sites to obtain a greater control on distillates.
- Pursue opportunities to expand Sunoco's retail product offering. This may include more environmentally focussed fuels and electricity.
- Achieve sustainable profitability in the natural gas marketing business by 2001.



Crude utilization reached 98% in 2000, up 3% from last year despite planned and unplanned outages experienced during the year. A major hydrocracker maintenance shutdown was completed on schedule during the spring of 2000.

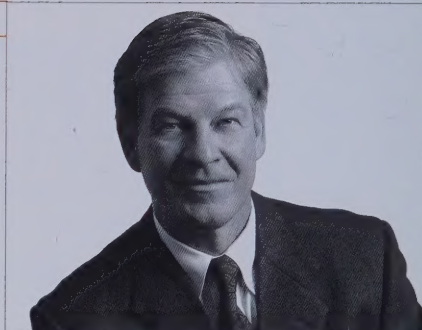


Refining margins improved from last year due to the tight supply situation North America experienced during 2000. Retail margins declined, as the rapidly rising costs of crude oil could not be fully recovered.



Return on capital employed reached 20.5% in 2000, reflecting higher refining margins and improved volumes.

RICK GEORGE
President and
Chief Executive Officer



Message to Shareholders

During the past year I had the opportunity to visit many different cities to provide investors with a personal view of Suncor Energy – its strategies for growth and its plans to generate shareholder value. Although my travels often took me to distant locations, I always found the journey rewarding because each trip gave me an opportunity to talk about the attributes that make Suncor Energy uniquely different.

When telling the Suncor story, I always start with a review of our past performance. For 2000, that meant providing highlights of a year that ended with an average combined production rate of 141,100 barrels of oil equivalent per day, an accomplishment that helped establish new highs for Suncor's financial performance: earnings of \$377 million and cash flow from operations totalling \$958 million.

The Suncor story I tell to investors also includes an overview of each of our businesses. In 2000, Oil Sands production grew by 8%, generating its highest production level yet – an average of 113,900 barrels of oil per day. Sunoco increased retail volumes by 6% and more than tripled return on capital employed to 20.5%. It was also a good year for Natural Gas, which eliminated \$15 million from its cost structure and concluded its divestment program by generating \$314 million from the sale of non-core, oil-weighted assets. Unfortunately, the year was not as positive for the Stuart Oil Shale Project in Australia, where we continued to face environmental and technical challenges in our efforts to produce oil from oil shale. Suncor is working to resolve operating issues at the plant before making any decisions regarding the project's next stage of development.

My review of Suncor's financial and base business performance is, on its own, an intriguing story. However, it's when I discuss Suncor's unique approach to generating shareholder value that the audience sits up and takes notice. What makes the Suncor story compelling is five characteristics that, together, set us apart from the competition:

Production Growth

Construction is under way to increase Oil Sands production from its current capacity of 115,000 barrels per day to 225,000 barrels per day by 2002. Our long-term vision is to double production yet again and reach a daily average volume of 400,000 to 450,000 barrels per day in 2008.

Large Resources

Suncor has oil sands leases that contain an estimated eight billion barrels of recoverable bitumen. There are no finding costs with oil sands development and no need to dedicate time and resources to explore for potential development opportunities.

Profitability

Since 1992, Suncor has reduced cash operating costs at Oil Sands by 25% enabling us to produce a barrel of oil today for about \$12.50 (U.S. \$8.40). In 2002 we expect increased production and improvements in efficiency to reduce that cost by an additional 25%, dropping costs to \$8.50 – \$9.50 per barrel (as described on page 34). Our goal is to be one of the lowest-cost oil producers in North America.

Value-Adding Integration

Across the Company, each of Suncor's businesses is increasing its ability to deliver strong returns as independent operations while leveraging opportunities for integration. This approach helps drive shareholder value for the long term by creating a diversified product, customer and revenue base, reducing the Company's risk to market fluctuations along the entire value chain.

Our Vision of Sustainable Development

Suncor's vision of sustainable development is to increase shareholder value and improve our environmental performance while contributing to the well-being of our communities.

Together, these five attributes – production growth, large resources, profitability, integration, and a vision of becoming a sustainable energy company – provide Suncor with The Energy Difference.

The Energy Difference: Production Growth

When the calendar changed from 1999 to 2000, those who weren't focused on predicting the impact of the Y2K bug were debating when the new millennium actually started. At Suncor we have known for some time that our celebration was tied to Project Millennium – a \$2.8 billion expansion of Oil Sands that is as much about increasing production to 225,000 barrels per day as it is a symbol of the start of a stronger, and increasingly more competitive company.

By the end of 2000, Project Millennium was 70% complete, a significant achievement that saw a peak workforce of 5,200 people move more than three million cubic metres of soil and rock, lay about 33,000 metres of underground pipe, install more than 10,000 tonnes of structural steel and place nearly 68,500 cubic metres of concrete.

All that hard work will be put to the test in the second half of 2001 as the construction crews are replaced by production start-up teams assigned the task of safely commissioning everything that is new – from the trucks and shovels that mine the oil sands ore, to the final product tanks that store our custom-blended refinery feedstocks.

Our number one priority for the coming year is to ensure Project Millennium commissioning goes according to plan: that it is completed on schedule, within our \$2.8 billion budget, and that it achieves our goal of realizing a production capacity of 225,000 barrels per day by the start of 2002. Success with Project Millennium will serve as a foundation for future growth and provide us with the momentum to move toward our vision of producing 400,000 to 450,000 barrels of oil per day in 2008.

This next phase of growth is already under way. In 2000, Suncor submitted regulatory approval applications for the Firebag In-situ Oil Sands Project, and expects a regulatory decision in 2001. This project is designed to add approximately 35,000 barrels of bitumen per day, supporting Suncor's plan to increase production to 260,000 barrels of oil per day in 2005. Future phases of development at Firebag are expected to increase production to 140,000 barrels of bitumen per day before the end of the decade.

When constructed, Firebag is expected to recover bitumen with less impact to the air, water and land than our traditional open pit mining and extraction method. It will also enable Suncor to develop oil sands deposits buried too deep to be economically recovered by a truck and shovel operation. Expanding our oil sands business with the use of in-situ technology and surface mining is a strong marriage of recovery methods, enabling Suncor to fully develop its oil sands reserves cost-effectively with reduced environmental impact.

The Energy Difference: Large Resources, No Finding Costs

According to government statistics, the Athabasca oil sands deposit is the world's largest known petroleum resource, containing more than 300 billion barrels of recoverable bitumen.

Suncor's leases contain a combined total of about eight billion barrels of recoverable bitumen, a supply sufficient to support production of 400,000 barrels of oil per day for more than 40 years. Unlike our competitors in conventional oil, our oil business is not limited by reserve availability, finding costs, or well volumes that begin to decline as soon as production starts to flow.

“Success with Project Millennium will serve as a foundation for future growth and provide us with the momentum to move toward our vision of producing 400,000 to 450,000 barrels of oil per day in 2008.”

The Energy Difference: Profitability

Suncor's aim is to be one of the lowest-cost oil producers in North America, and Project Millennium is an integral part of that plan. By increasing Oil Sands production capacity, we expect to reduce our cost base to \$8.50 – \$9.50 per barrel in 2002. Improvements in cash costs also come from efficiencies derived from expanding a business that has been in operation for more than 30 years. Project Millennium may be new, but it is supported by an existing infrastructure that, I believe, enables Suncor to grow more quickly and at a lower cost than companies new to oil sands development.

If you think about it, Suncor's oil sands operation is more like a manufacturing process than a resource exploration and production business, and Project Millennium provides us with a second assembly line. The second train of the operation can continue to produce even when its “twin” is down for repairs, creating benefits in production and cash flow.

Despite the revised capital cost estimate of \$2.8 billion, up from the original estimate of \$2 billion, Project Millennium continues to be a remarkable opportunity and a sound investment that is expected to deliver solid shareholder value in the coming years. Based on our planning assumptions, should crude oil prices decline as low as U.S.\$15 per barrel (escalated at 2% per year), the Project can still generate a cost of capital return of more than 11%.

I'm pleased to report that all our businesses have taken up the challenge and have made concerted efforts to reduce operating costs. In 2000, Natural Gas reduced its annual operating costs by 16%, as it restructured with a goal of reaching sustained double-digit returns in 2004. We also realigned Sunoco with an aim to be more cost-effective, an initiative that should move the Sarnia Refinery closer to its goal of becoming one of the most profitable and efficient refineries of comparable size and complexity in North America within two years. Each of Suncor's three businesses are competitive and contribute cash flow that finances our growth plans.

While the success of other energy companies has been dependent on the rise of oil and gas prices, Suncor's financial picture has remained stable, even when oil prices declined. Increasing production, more reliable operations and lower unit costs have helped make Suncor less vulnerable to fluctuations in commodity prices.

The Energy Difference: Capturing the Benefits of Integration

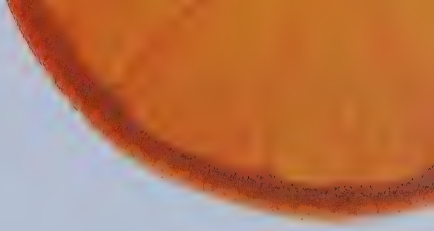
It's easy to tell the story of how our oil sands business makes Suncor different. But it is the integration of all the Company's businesses – Oil Sands, Natural Gas and Sunoco – that capitalizes on that distinction.

To sustain Oil Sands' high production volumes, the plant needs more electricity and steam. In order to boost power and improve the plant's environmental performance, the Company has increased its reliance on cleaner burning natural gas. In 2000, our Natural Gas business produced a daily average of 200 million cubic feet per day of this high-demand commodity – enough to sell to external customers and to power the oil sands plant and our Sarnia Refinery. Our gas production acts as a natural hedge – a valuable benefit that is especially important in these times of tight supply and escalating prices. Our goal is to increase production from our Natural Gas business to ensure it keeps pace with the growing energy demands of Oil Sands, Sunoco and the marketplace.

The Sarnia Refinery links the upstream and the downstream, taking about 45,000 barrels per day of oil sands crude and upgrading it into products that are sold primarily through a distribution network of more than 500 retail stations. In some ways, Sunoco and the Sarnia Refinery are an extension of our oil sands business, taking the refinery feedstock Oil Sands produces and turning it into the higher value products customers demand.

Suncor Energy Marketing Inc. connects the Company's divisions by operating and managing its Alberta-based pipeline systems for both oil and natural gas. The marketing arm of this business also crosses all of Suncor's boundaries – interacting with Natural Gas, Oil Sands and Sunoco as it sells and trades a variety of products and services including crude oil, diesel fuel and byproducts such as petroleum coke, sulphur and gypsum.

The benefits of integration are clear: stronger, self-sufficient businesses working together to give Suncor more control over our entire manufacturing and marketing chain and the opportunity to extract additional value at each stage along the way.



“Suncor’s aim is to be one of the lowest-cost oil producers in North America, and Project Millennium is an integral part of that plan.”

**The Energy Difference:
Working Toward Our Vision of Sustainability**

A new world is emerging in which strong financial performance will be a necessary, but not sufficient, condition of success. Successful companies will be those that recognize economic, environmental and social performance are complementary and mutually supportive, and are essential to achieving sustainable growth.

Being among the first to recognize this new reality has the potential to be a long-term competitive advantage for Suncor. It has led to our adoption of a parallel path approach to capturing current and emerging energy opportunities – responsibly developing hydrocarbon resources for current needs and taking action now to support the diversification of our energy sources over the longer term.

This parallel path approach was the driving force behind a decision to more aggressively pursue opportunities in alternative and renewable energy. In January, Suncor pledged to invest at least \$100 million by 2005 to begin producing energy from sources such as wind power and landfill gas. Suncor will also continue to support research and development projects that include the capture and sequestration of carbon dioxide.

Although I am proud of the achievements we’ve made, I know more can be done to improve our environmental and social performance and fulfill our commitment to sustainable development.

For example, one of my priorities for 2001 is to develop detailed plans that will enable us to reduce our greenhouse gas emissions through a more aggressive

pursuit of energy efficiency within each of our businesses. We will do this by continuing to apply new technology that will reduce our environmental impact while using less electricity, steam, water and natural gas in our production processes.

Our vision of becoming a sustainable energy company demands that we identify innovative ways to eliminate waste, reduce environmental impacts and improve our social performance. Each step we take toward our vision of sustainable development helps to earn the respect of our stakeholders – community residents, governments and interest groups – whose trust we must maintain in order to operate and grow our business.

**Suncor Employees Put the Energy
Difference to Work**

The most enjoyable part of my job as CEO is when I get to put on my steel-toed boots and hardhat and go out to the field to talk to the Suncor employees who work the front line – the truck drivers, board operators, maintenance crews, and field operators who turn boardroom strategies into measurable realities. Every day, the work they do and the challenges they overcome earn my respect and admiration.

We have employees who have 30 years of service – experience that is invaluable, enabling them to tell almost instinctively from the hum of a pipe what production rate will be achieved that day. And they pass on this knowledge to our new employees who bring their own competitive advantage to the team – new energy, enthusiasm and fresh ideas that drive innovation and change.

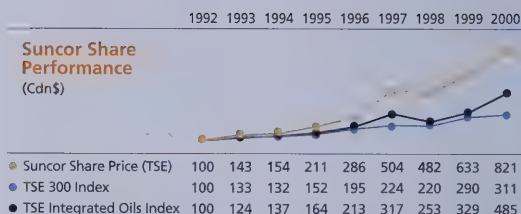
Everyone working in all parts of our business – from Sunoco's retail outlets in eastern Ontario, to Natural Gas' western operations in Alberta and British Columbia, to way down under in Australia – has the spirit and determination that makes me confident about the Company's future. Even when faced with significant issues such as the rising construction costs that increased Project Millennium's budget or the commissioning delays at the Stuart Oil Shale Project, I know that if there's a way to exceed expectations and deliver on our commitments, Suncor's 3,000 employees will find it.

Suncor's employees support an exceptional management team. I want to thank the Corporate Committee and the members of our Board of Directors for their strong and effective leadership of our Company again this year. Sadly, we must move forward without Bill Rutherford, who passed away on January 29, 2001. Bill had been a member of the Board of Directors since 1988. I had the pleasure of working with Bill for many years and benefited greatly from his broad experience and knowledge.

It's the strategy and leadership provided by the Board, combined with the determination and enthusiasm of Suncor's employees, that enables me to confidently confirm our goal of doubling shareholder value every five years.

In 2000, we progressed toward that goal, ending the year with a common share price of \$38.30, a 27% increase over the 1999 year-end close, a reflection of both the market-wide impact of strong oil and gas prices, and investor confidence in achieving our long-term vision to profitably grow our business.

Since Suncor common shares became publicly traded in 1992, our production rates have more than doubled and our oil production costs have declined by 25%. During that time, our total return on investment to common shareholders has increased by more than 800%.



This chart shows as of December 31 in each of 1992 to 2000 inclusive, the total cumulative return, assuming the reinvestment of dividends, of \$100 invested on December 31, 1992 in each of Suncor's common shares, the TSE 300 composite index and the TSE Integrated Oils Index. Suncor's direct competitors are included in the Integrated Oils Index, which improved 385% compared to Suncor's performance gain of 721%.

In those eight years, Suncor's shareholder base has also changed dramatically. Initially, over 90% of our shareholders were Canadian. Today, with our common shares traded on the New York and Toronto stock exchanges, approximately half of our shareholders are from outside Canada. This international investor base is both a validation of our progress in becoming globally competitive and a reminder that our performance will be judged against the best energy companies in the world. With a vision of increasing production to 400,000 to 450,000 barrels per day in 2008, combined with our world-scale resource base, the next eight years should be at least as exciting as the last.

The strength of Suncor's share price is an indication of the market's confidence in our ability to generate high returns for investors. Our approach to accomplishing this – production growth, access to large resources, profitable businesses with a declining cost base, the additional value we generate from integration, and our vision of sustainable development – is a formula that is unique to Suncor – a reflection of our combination of assets, skills and expertise. It's the Suncor way of doing business that sets us apart. It's our Energy Difference.

RICK GEORGE

President and Chief Executive Officer



FOCUS ON PROJECT MILLENNIUM

The Project will expand all phases of oil sands processing – mining, extraction, upgrading and supporting infrastructure.



growth

While each of Suncor's businesses is developing long-term growth opportunities, Oil Sands is the catalyst for the Company's plan to increase production. Project Millennium is a \$2.8 billion expansion that's expected to nearly double production capacity by 2002. Suncor intends to build on that growth by investing an additional \$750 million to expand production further through a commercial in-situ oil sands operation. The combination of oil sands mining and in-situ development is part of Suncor's vision to increase production to 400,000 to 450,000 barrels per day in 2008.

Firebag In-situ Oil Sands Project

Subject to Board and regulatory approvals, the Firebag In-situ Oil Sands Project will be developed 40 kilometres northeast of Suncor's current site to provide bitumen that will be integrated with feedstock from the existing operation.

The initial phase of Firebag is expected to produce approximately 35,000 barrels of bitumen per day in 2005. Planning is under way for Suncor to make further investments to increase the production of Firebag in stages, ultimately targeted to generate about 140,000 barrels of bitumen per day by the end of the decade.

Oil Sands Expansion

- 1 Sizers – mine and ore preparation
- 2 Primary extraction
- 3 Secondary extraction/froth treatment
- 4 Diluent recovery and vacuum units
- 5 Vacuum towers
- 6 Cokers
- 7 Hydrotreaters
- 8 Sulphur recovery
- 9 Finished products
- 10 Utilities

- Existing Facilities
- Project Millennium
- Proposed Firebag Expansion



- Suncor produced an average of 143,100 barrels of oil per day. The Company's oil sands business was the main contributor to that production, generating an average of 113,000 barrels per day.

Approximately 70% of Project Millennium was completed by year end. It's expected to increase production capacity to 135,000 barrels per day by 2002.

- Suncor announced plans for the next step to expand its oil sands business: the Firebag In-situ Oil Sands Project. Suncor intends to use in-situ technology to extract bitumen by heated steam through the surface in deposits not accessed through open pit mining.
- To produce Firebag bitumen, Suncor unveiled plans to increase the capacity of its oil sands upgrade. In 2001, it will produce 100,000 barrels of oil per day in 2005.

DRIVING CONTINUOUS IMPROVEMENT

Sunoco's efficient distribution system has steadily increased volume while reducing costs.



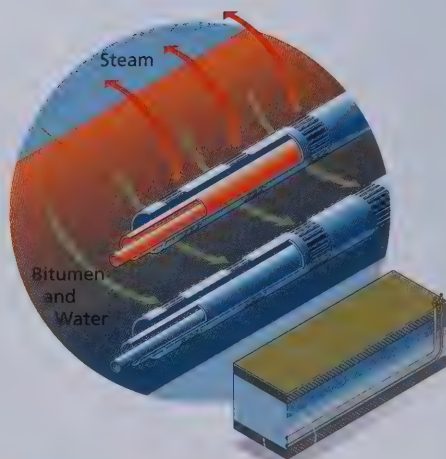
growth

How In-situ Technology Works

At Firebag, Suncor plans to use Steam Assisted Gravity Drainage (SAGD) technology, which involves drilling two horizontal wells – one to inject steam and a second to collect the bitumen released by the heat.

SAGD recovers bitumen with less impact to the land, water and air than traditional mining methods. The physical plant structure will disturb less than 10% of the surface land area over the deposit being developed. Suncor plans to use recycled water from the wastewater streams at the oil sands plant and to generate steam with cleaner burning natural gas.

The Company is researching the potential of injecting carbon dioxide and light hydrocarbons into the in-situ deposit. This would decrease emissions by reducing the amount of natural gas needed to generate steam. Suncor will also examine the potential use of the in-situ reservoir as a permanent repository for greenhouse gas emissions.



SAGD TECHNOLOGY

Steam is released from the upper chamber, heating the bitumen which is then collected and piped to operations above the ground for further processing.

Sunoco Expands its Market Share

Sunoco continues to pursue growth in its Ontario-based core business through new products, distribution channels and integrated marketing strategies. In 2000, Sunoco raised total sales volume by 6% over the prior year and increased its market share for refined petroleum products by a full percentage point to 17%.

Key focus areas for Sunoco include continuous improvement in the profitability and efficiency of the Sarnia Refinery, to position it in the top one-third of North American refineries of similar size and complexity. Sunoco will also continue to assess and pursue opportunities for growth including the potential to market electricity in Ontario.

Natural Gas

Based on a strategic assessment of higher export pipeline capacity, increased North American demand and the growing energy needs of its oil sands operation, Suncor believes natural gas has greater long-term growth potential than conventional oil. The sharpened focus on

natural gas led to the divestment of \$314 million in non-core and predominantly oil-producing assets.

While strategic divestments decreased overall production from an annual average of 360 million cubic feet equivalent per day (mmcf/day) to 272 mmcf/day in 2000, Natural Gas is now positioned to further develop three core areas where management believes assets and expertise provide profitable growth potential.

In addition to pursuing growth from conventional production, Natural Gas will advance its coal bed methane strategy in 2001 and expects to drill exploratory wells in the United States and Australia with initial production targeted for the fourth quarter of 2001.

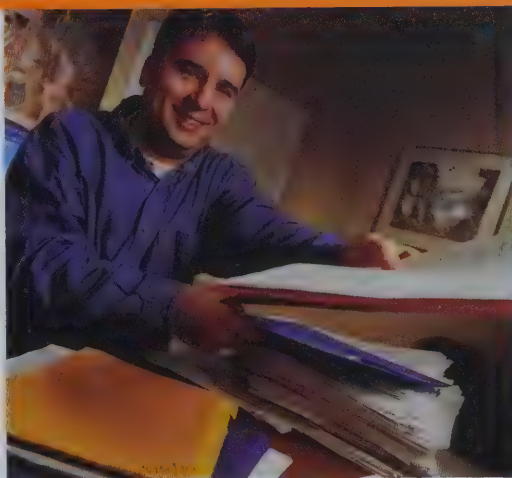
Coal bed methane is composed of pure or nearly pure methane, the main component of natural gas. Like conventional natural gas, coal bed methane is trapped under pressure in subsurface geological formations – coal seams. In commercial operations, it is pumped to the surface and shipped by pipeline for industrial and domestic use.

EMPLOYEES DRIVE THE ENERGY DIFFERENCE

The production growth of Suncor's oil sands operation means increased pressure on Greg Hundseth to recruit employees. With close to 400 permanent jobs filled in 2000 and another 100-plus positions opening this year, recruiting the right people at the right time is key to achieving Oil Sands' expansion goals.

"I did about 300 interviews last year," says Greg, who has been with Suncor for three years. "If we need someone, I pretty much know where to find them."

Born and raised in Fort McMurray, Greg knows the area inside and out – and where to find potential employees. That means using a sophisticated resume tracking system, attending campus recruitment fairs and keeping up his contacts across the country and around the world. Greg is also focused on achieving Suncor's goal of regional demographic representation of Aboriginal people. "Currently at 9%, we've made significant strides in 2000 toward our goal of 12%," says Greg.



GREG HUNDSETH
Human Resources Coordinator, Oil Sands

THICK, STICKY BITUMEN

At room temperature, bitumen is like cold molasses. It must be diluted before it will flow through a pipeline.



resources

With resources estimated at 300 billion barrels of recoverable bitumen, the Athabasca oil sands is the world's largest known petroleum resource. As conventional supplies of oil and gas are depleted in North America, this resource offers an increasingly important – and readily accessible – source of energy. Suncor's leases are estimated to contain a combined total of about eight billion barrels of recoverable bitumen, so unlike conventional oil producers, Suncor does not incur the usual high finding costs and risks associated with exploration.

ACCOMPLISHMENTS 2000

Investing in Production, Not Finding Costs

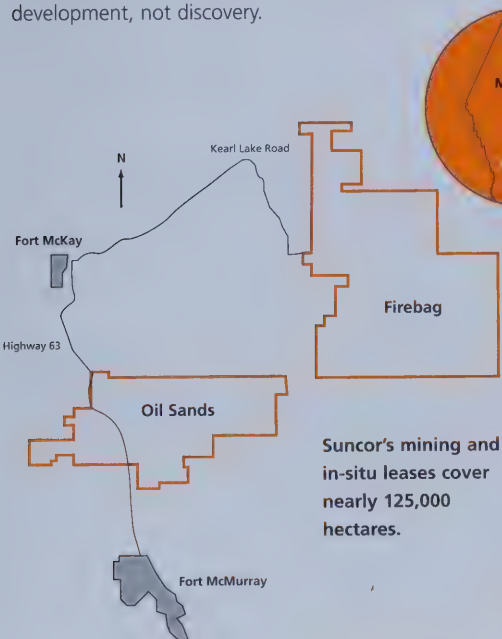
Suncor's approved mining leases are all located relatively close to the Company's oil sands processing facilities. Unlike conventional oil companies, Suncor does not have the risk and cost of the exploration phase of development and can focus solely on production. While the need to establish new reserves is driving conventional producers to drill deeper and in more remote locations, Suncor will focus on improving its processes and developing new technologies to further its goal of being one of the lowest-cost oil producers in North America.

Although Suncor continues to conduct core hole drilling and seismic, this is largely geared toward reservoir development, not discovery.

Seismic and core hole drilling over the past three years has confirmed Suncor's Firebag leases could contain up to five billion barrels of recoverable bitumen.

Suncor filed for regulatory approval to develop 1.6 billion barrels of bitumen, expected to support the Company's plan to produce up to 140,000 barrels per day of bitumen from Firebag.

Management believes the 1.6 billion barrels represents one-third of the existing potential at Firebag.



OIL SANDS MINING

Huge trucks are loaded with oil sand by hydraulic shovels.

CUSTOM-BLENDED CRUDE

Oil Sands' ability to custom blend its crude oil provides customers with many product options.



profitability

Suncor is determined to lower its costs, leveraging its expanded production into higher financial returns. Although each business is striving to reduce costs, the predominance of Oil Sands means it will have the greatest impact on the Company's profitability, supporting Suncor's goal to be a high-volume crude oil producer with one of the lowest cost structures in the oil business in North America.

ACCOMPLISHMENTS 2000

Reducing Costs

Project Millennium is expected to enable Suncor to produce more oil, with increased reliability and at a lower cost. While its construction expenditure contributed to increased costs in 2000, Project Millennium is expected to reduce Oil Sands costs to \$8.50 – \$9.50 per barrel in 2002 (as described on page 34).

The “Light” Approach to Higher Profits

Suncor's Natural Gas business was restructured to focus on core operating areas, increasing efficiencies and reducing operating costs. Natural Gas reduced annual operating costs by \$15 million in 2000, and will look for opportunities to eliminate another \$3 million to \$5 million in 2001. Combined with strong natural gas prices, this focus on efficiency increased operating earnings to \$59 million in 2000 from \$22 million in 1999.

Natural Gas intends to enhance profitability by reducing capital investments in favor of investing its expertise in partnerships and service offerings to the resource sector. The first service offering in this “capital light” approach is Prospect Generation Services (PGS), which is structured to leverage Suncor's geological and geophysical expertise to market drilling prospects to other energy companies. PGS is expected to begin generating revenue in 2001.

Sunoco also realigned its organization, reducing from three to two business units: one to focus on low-cost production and procurement of energy products and another dedicated to efficient marketing and sales management. Sunoco will continue to pursue opportunities to increase profits through production optimization and expansion of its product offering.

- Suncor's consolidated earnings were the Company's highest ever at \$377 million, up from \$186 million in 1999. Earnings were \$1.58 per common share compared with \$0.74 per common share in 1999.
- Cash flow from operations grew for the eighth consecutive year to a record \$958 million, or \$4.11 per common share, compared with \$591 million, or \$2.51 per common share in 1999.
- Natural Gas restructured its business with a goal of reaching sustained double-digit returns in 2004. The business eliminated 70 positions and reduced its annual base operating costs by \$15 million.
- Sunoco achieved record earnings of \$81 million and increased its return on capital employed to 20.5%.

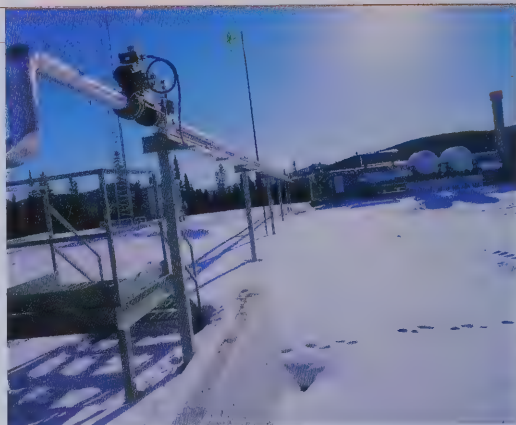


BASE BUSINESS EXCELLENCE

Capitalizing on established operations allows Suncor to grow at a lower cost than companies that are only now beginning to invest in oil sands development.

THE BENEFIT OF NATURAL GAS

When natural gas costs are high, revenues from production help offset the cost of consumption at Oil Sands and Sunoco. Producing more than the Company consumes creates a natural hedge for Suncor.



integration

Suncor's operations are linked to form an integrated value chain. Currently, Oil Sands provides feedstock to Sunoco and other North American refiners. Sunoco further refines the Oil Sands production and then markets it to commercial and retail customers, providing a more secure, diversified revenue base. Natural Gas provides a reliable and competitive fuel supply, a definite advantage during the current period of tight supply.

ACCOMPLISHMENTS 2000

Downstream Integration

Suncor continues to evaluate opportunities to capture value from the planned growth in Oil Sands production by looking at creative ways to reach the end consumer. These potential opportunities to expand the Company's refining activities could take the form of joint ventures or possible acquisitions.

Downstream integration also occurs by establishing long-term agreements with other refiners in both Canada and the United States. For example in 2000, Suncor announced a long-term sales agreement with Consumers' Co-operative Refineries Limited to supply the refiner with 20,000 barrels per day of sour crude oil beginning in late 2002.

Expanding the Unique Value Chain

While Suncor's organization is structured as three separate businesses, the key to success is in its ability to improve operational integration. As each business strengthens and integrates its own operation, they also seek synergies from working together to influence the entire manufacturing and marketing chain. This approach creates a diversified customer and revenue base, controls risk and offers the opportunity to capture value at each stage.

Oil sands production provided Sunoco with a daily average of 45,000 barrels of light crude oil – about 64% of the Sarnia Refinery's capacity.

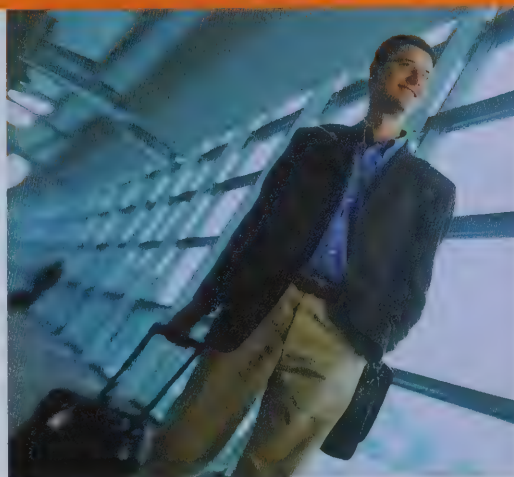
With an integrated North American gas market, Natural Gas production in Western Canada was able to cover demand from Oil Sands, the Sarnia Refinery and Sunoco's retail energy marketing business – a total of 135 mmcf/day.

Enbridge Pipelines Inc. began construction of four new crude oil tanks to provide additional long-term crude oil handling services to Oil Sands. The newly constructed tanks will double capacity at Enbridge's Athabasca Pipeline terminal. A portion of the tank capacity will accumulate and blend batches of products from Suncor's plant for delivery by pipeline.

The Alternative and Renewable Energy team was organized to ensure broad input from all of Suncor's operating areas, with the intent of identifying green energy opportunities for each of its businesses.

EMPLOYEES DRIVE THE ENERGY DIFFERENCE

For legal counsel Kris Smith, integration is an important part of his job. He's focused on meeting the unique, yet connected needs of the Company's businesses. His work helps the Company to secure the most value from the planned growth in Oil Sands production, including finding new ways to bring product to consumers and seeking opportunities to expand Suncor's refining activities. For Kris, this often means travelling outside Calgary to negotiate commercial opportunities that take the form of sales agreements, joint ventures and possible acquisitions. The year 2000 involved some important negotiations for Kris and his legal colleagues, including a sales agreement with Consumers' Co-operative Refineries Limited.



KRIS SMITH
Legal Counsel, Corporate Office, Calgary

MONITORING WATER QUALITY

Jason Heisler, environmental specialist, assesses the discharge from a mine drainage pond. On a regular basis, Suncor personnel conduct a variety of tests to ensure the Company is meeting its environmental commitments.



sustainability

Suncor has the hydrocarbon reserves to meet the growing demand for transportation fuels and other energy needs for the foreseeable future. However, the Company recognizes its ultimate success depends on taking a broad, long-term view of the energy business and earning the respect of those who may be affected by its actions. Suncor believes its commitment to achieving success across a triple bottom line – financial, environmental and social – creates a competitive advantage.

ACCOMPLISHMENTS 2000

Working Together to Advance Renewable Energy

Suncor and the Pembina Institute for Appropriate Development co-founded a coalition of corporate, environmental, non-governmental and municipal organizations to accelerate development of Canada's renewable energy industry. The group – known as the CARE Coalition (Clean Air Renewable Energy) – is urging the federal government to implement short-term incentives that will encourage developers to increase investment in renewable energy projects and boost consumer demand for “green power.”

CARE Coalition members believe a strong and growing renewable energy industry in Canada will have significant benefits for the country, including diversification of energy supply, improved air quality and reduced greenhouse gas emissions.

Meeting the Environmental Challenge

Suncor recognizes the need to reduce the environmental impacts associated with ongoing development and use of hydrocarbon energy. That's why employees are working hard to find solutions through excellent operational performance and management systems, the implementation of a comprehensive climate change plan, reformulating fuels and adopting new technologies to address other environmental impacts.

In 2001, Suncor will implement plans to aggressively pursue greater energy efficiency. This should yield cost savings and contribute to cleaner air. For Suncor, this is sustainable development in action – simultaneously improving the Company's economic and environmental performance.

- Suncor announced it would invest \$100 million in alternative and renewable energy by 2005.
- Suncor's new and upgraded energy recovery units produced 100,000 cubic metres of natural gas liquid sulphur dioxide emission, a reduction of 40 tonnes per day, with a 15% increase in net 20 tonnes per day.
- Suncor was included in the *Fortune* magazine as one of only 200 companies worldwide that form the Dow Jones Sustainability Index.
- The Suncor Energy Foundation provided almost \$5 million to help fund a wide range of environmental and community initiatives to 124 non-profit organizations in Canada.

Pursuing Alternative and Renewable Energy

As part of its vision to become a sustainable energy company, Suncor is pursuing a parallel path to future growth – providing the hydrocarbon energy that consumers need today for transportation and heat, while taking action to support the diversification to alternate and renewable energy sources over the longer term. As part of that effort, Suncor has committed to invest \$100 million by 2005 to pursue alternative and renewable energy sources such as wind, biomass, landfill gas, solar, and run-of-river hydroelectricity.

POWER FROM WIND

Wind farms are one investment option being considered by Suncor.



A CARING NEIGHBOR

Employees like Steven Rapaich and Kathy Urquhart of Sunoco's Sarnia Refinery volunteer regularly at the Devine Street School, serving a nutritious breakfast to students.



sustainability

Reducing Greenhouse Gases

Suncor's goal is to meet or exceed relevant national and international commitments to limit greenhouse gases in the atmosphere. In the context of current Canadian commitments, this involves lowering net greenhouse gas emissions to 6% below 1990 levels by 2010; an ambitious target given the Company's vision to produce 400,000 to 450,000 barrels of oil per day in 2008. Since 1990, Suncor has used technology and efficiency improvements to reduce greenhouse gas emissions by 7.7 million tonnes, from its base case.

Responsible Development of the Stuart Oil Shale Project

In 2000, Suncor continued to face challenges in commissioning a demonstration project to test the use of new technology to extract oil from Australia's vast oil shale deposits, a potentially valuable source of future energy.

To address environmental issues and improve plant performance, Suncor announced it would spend an additional \$13 million to \$22 million on the Stuart Oil Shale Project. The Company also decided it would put the next stage of commercial development on hold until the issues of long-term sustainability are resolved.

Creating a sustainable oil shale business means working to resolve local community concerns – winning the support of the public and continuing to work co-operatively with local, regional and national governments by establishing high standards of performance and social responsibility – and addressing the risk of climate change through a greenhouse gas management plan that reflects national and international commitments.

Suncor operates the project, which is a joint venture with Australian partners Southern Pacific Petroleum NL/Central Pacific Minerals NL.

Creating a Great Place to Work

At Suncor, creating a great place to work is a key part of the Company's commitment to corporate social responsibility. Suncor believes its future success depends on its ability to create a workplace that is safe, challenging, stimulating and fair – a place where every employee has the opportunity to grow and achieve.

In 2000, Suncor was recognized for its efforts in this area. The Company was rated one of the Best Companies to Work for in Canada – and one of Canada's Most Respected Corporations – by the *Globe and Mail's* "Report on Business" magazine.

Creating a safe and healthy work environment remains a top priority for the Company. Suncor continues to be among the best in Canadian industry in this area and achieved some important milestones in 2000. During a time when employees and contractors in the Company's Oil Sands operation logged more than 15 million hours, Suncor achieved its best ever employee lost time injury frequency. Similarly, Natural Gas marked its fourth consecutive year without an employee lost time injury.

Despite this performance, a contractor died while working at Oil Sands in February 2000. This tragic incident emphasizes the importance of vigilance in ensuring the health and safety of all workers. Suncor remains committed to providing a safe environment for employees and all those entering its facilities.

Investing in Our Communities

The Suncor Energy Foundation, a private charitable foundation fully funded by Suncor, manages the Company's community investments to registered charities. In 2000, the Foundation gave almost \$3 million to charitable causes. One major initiative was the launch of the Foundation's environmental Millennium Legacy program. A \$600,000 donation was announced to support Evergreen, a national charity restoring large urban areas, schoolyards and residential spaces. Half of the funds were distributed equally between three major urban environmental projects in Calgary, Sarnia and Fort McMurray.

EMPLOYEES DRIVE THE ENERGY DIFFERENCE

Sustainability is something Suncor employees incorporate into their daily work. It's a concept that says it's possible to make a profit, care for the environment, and be socially responsible. For newly hired engineer Jessica Locke, it means designing chemical processes that have the least impact on the environment, and create the most value for customers and shareholders. Jessica, a graduate in chemical engineering and chemistry, brings her education and experience to a wide range of duties; everything from trouble-shooting corrosion issues to investigating ways to mitigate flaring – all within the framework of sustainability. And in everything they do, she and her refinery co-workers work hard to maintain ISO 14001 certification. In early 1999, the Sarnia Refinery became the first refinery in Canada to receive the certification by the International Organization for Standardization. ISO 14001 is an environmental management standard developed as a tool for integrating environmental responsibility into everyday business operations.



JESSICA LOCKE
Chemical Engineer, Sarnia Refinery

Management's Discussion and Analysis

Hedging

Companies use derivatives to hedge or counteract possible fluctuations in the price of commodities or interest rates. This permits mitigation of price or interest rate risk due to market fluctuations

OVERVIEW * * *

Suncor Energy Inc. is a Canadian company comprised of three operating businesses: an oil sands operation (Oil Sands); a natural gas business (Natural Gas – NG, formerly the Exploration and Production business); and a refining and marketing operation (Sunoco). Suncor markets its crude oil production, diesel fuel and byproducts through its wholly owned subsidiary Suncor Energy Marketing Inc. Suncor's corporate centre is located in Calgary, Alberta, Canada. Suncor is currently commissioning an oil shale demonstration project known as the Stuart Oil Shale Project.

2000 Earnings Increased 103%

Net earnings for the year increased to \$377 million, from \$186 million in 1999. Cash flow from operations was \$958 million, compared with \$591 million in 1999. During the year, several transactions impacted net earnings and cash

flow from operations that were not viewed as ongoing operational earnings and cash flow. These transactions included Suncor's write-down of the carrying value of the Stuart Oil Shale Project, restructuring costs and divestment gains in NG and Project Millennium start-up costs. Refer to Notes 2 and 3 in Suncor's Consolidated Financial Statements for further information.

Operational earnings in 2000 increased to \$427 million from \$167 million in 1999. Operational cash flow from operations was over \$1 billion, representing the eighth consecutive year of cash flow growth. Operational cash flow in 1999 was \$591 million. The non-operational transactions are explained in the Notes to the Consolidated Financial Statements. See the tables below for the components of net earnings and cash flow from operations.

Net Earnings Components

(\$ million, after income taxes)	2000	1999	1998
Operational earnings	427	167	175
Natural Gas			
Asset divestments	69	19	3
Restructuring	(30)	—	—
Stuart Oil Shale Project			
Partial asset write-down	(80)	—	—
Oil Sands			
Start-up expenses – Project Millennium	(9)	—	—
Net earnings	377	186	178

Cash Flow from Operations Components

(\$ million)	2000	1999	1998
Operational cash flow	1,009	591	580
Natural Gas			
Restructuring costs	(9)	—	—
Oil Sands			
Start-up expenses & overburden removal – Project Millennium	(42)	—	—
Cash flow from operations	958	591	580

Quarterly Data: For information related to quarterly sales, net income and net income per share for the years 2000 and 1999 refer to page 78 of the 2000 annual report and the section "Financial Data".

The \$260 million increase in consolidated operational earnings in 2000 compared to 1999 resulted primarily from higher commodity prices and record Oil Sands sales volumes. Other factors that increased earnings include improved refining margins and volumes, reduced income tax rates and higher Australian/Canadian foreign exchange rate gains. These

positive factors were partially offset by higher **hedging** losses and operating expenses, lower natural gas volumes, Stuart Oil Shale Project costs and reduced retail gasoline margins.

Operational cash flow in 2000 increased over 1999 primarily due to the same factors that increased earnings.

Consolidated Financial Results

(\$ millions)	2000	1999	1998
Net earnings	377	186	178
Cash flow provided from operations	958	591	580
Investing activities	1,607	1,290	937
Dividends – common shares	75	75	75
– preferred securities	47	37	0
Long-term borrowings	2,192	1,306	1,298

Relative Segment Contribution

Excludes the impact of corporate and elimination adjustments, where applicable	2000	1999	1998
Net Earnings			
Oil Sands	64	71	70
Natural Gas	20	17	12
Sunoco	16	12	18
Cash flow provided from operations			
Oil Sands	62	60	53
Natural Gas	22	25	28
Sunoco	16	15	19
Capital Employed			
Oil Sands	64	55	49
Natural Gas	19	29	31
Sunoco	17	16	20

Industry Indicators

(Excludes the impact of corporate and elimination adjustments, where applicable)	2000	1999	1998
West Texas Intermediate (WTI) crude oil U.S.\$/barrel at Cushing	30.25	19.30	14.40
Canadian 0.3% par crude Cdn\$/barrel at Edmonton	44.56	27.50	20.45
Light/heavy crude oil differential U.S.\$/barrel – WTI @ Cushing/Bow River @ Hardisty	6.84	3.42	4.54
Natural gas U.S.\$/thousand cubic feet at Henry Hub	3.90	2.27	2.14
Natural gas (Alberta spot) Cdn\$/thousand cubic feet at Empress	5.08	3.00	2.25
Natural gas exports to the U.S. trillions of cubic feet	3.5*	3.4	3.1
New York Harbour 3-2-1 crack U.S.\$/barrel**	5.45	2.47	2.85
Refined product demand (Ontario) percentage change over prior year	2.0*	3.8	2.6
Exchange rate: Cdn\$:U.S.\$	0.67	0.67	0.67
Exchange rate: Cdn\$:Australian\$	1.16	1.04	1.07

* Estimate

** New York Harbour 3-2-1 crack is an industry indicator measuring the margin on a barrel of oil for gasoline and distillate. It is calculated by taking 2 times the New York Harbour gasoline margin plus 1 times the New York Harbour distillate margin and dividing by 3.

*** The tables and charts in this document form an integral part of Management's Discussion and Analysis and should be referred to when reading the narrative. References to Suncor or the Company include Suncor Energy Inc. and its subsidiaries and investment in joint ventures, unless otherwise stated. Management's Discussion and Analysis contains certain forward-looking statements that are based on Suncor's current expectations, estimates, projections and assumptions and were made by the Company in light of its experience and its perception of historical trends. All statements that address expectations or projections about the future, including statements about Suncor's strategy for growth, expected expenditures, commodity prices, costs, schedules and production volumes, operating or financial results, are forward-looking statements. Some of the forward-looking statements may be identified by words like "expects," "anticipates," "plans," "intends," "believes," "projects," "indicates," "could"

"vision," "goal," "objective" and similar expressions. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Suncor's business is subject to risks and uncertainties, some of which are similar to other oil and gas companies and some of which are unique to Suncor. Suncor's actual results may differ materially from those expressed or implied by its forward-looking statements as a result of known and unknown risks, uncertainties and other factors. The risks, uncertainties and other factors that could influence actual results include: changes in the general economic, market and business conditions; fluctuations in supply and demand for Suncor's products; fluctuations in commodity prices; fluctuations in exchange rates; Suncor's ability to respond to changing markets; the ability of Suncor to receive timely regulatory approvals; the successful implementation of its growth projects, including Project Millennium; the integrity and reliability of Suncor's capital assets; the cumulative impact of the resource development projects; Suncor's ability to comply with current and future environmental laws; the accuracy of Suncor's production estimates and production levels and its success at exploration and development drilling and related activities; the maintenance of satisfactory relationships with

unions, employee associations and joint venturers; competitive actions of other companies, including increased competition from other oil and gas companies or from companies which provide alternative sources of energy; the uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; actions by governmental authorities including increasing taxes, changes in environmental and other regulations; the ability and willingness of parties with whom Suncor has material relationships to perform their obligations to Suncor; and the occurrence of unexpected events such as fires, blowouts, freeze-ups, equipment failures and other similar events affecting Suncor or other parties whose operations or assets directly or indirectly affect Suncor. Many of these risk factors are discussed in further detail throughout this Management's Discussion and Analysis and in the Company's Annual Information Form on file with the Alberta Securities Commission and certain other securities regulatory authorities. Readers are also referred to the risk factors described in other documents that Suncor files from time to time with securities regulatory authorities. Copies of these documents are available without charge from the Company.

Management's Discussion and Analysis

Bitumen

A thick, sticky form of crude oil. At room temperature, bitumen is like cold molasses. It must be heated or diluted before it will flow into a well or through a pipeline.

Oil Sands

OVERVIEW

Suncor has more than 30 years' experience in mining and upgrading oil sands to produce crude oil on a commercial basis, more experience than any other company in the world.

Suncor uses the following proven technology and processes to produce oil from its leases in the Athabasca oil sands, near Fort McMurray, Alberta:

- Giant trucks and shovels mine the bitumen-laden oil sands.
- The **bitumen** is separated from the oil sands in the extraction process. It can then be sold directly to customers or upgraded into a variety of refinery feedstocks, including sweet and sour crude oil products and diesel fuel. The resulting products can be blended to customer specifications and sent by pipeline to markets in Canada and the United States.

The Oil Sands business also has an on-site energy plant, operated and partially owned by TransAlta Energy Corporation (TransAlta). The energy plant generates steam and electricity using natural gas and petroleum coke, a byproduct of the upgrading process.

In 1999, Suncor received government approval to proceed with Project Millennium, Suncor's oil sands expansion project. By the end of 2000, all engineering and 70% of the total project was completed. Commissioning is expected to begin in the second half of 2001, with full production capacity of 225,000 barrels per day targeted by 2002. Total Oil Sands production in 2000 averaged 113,900 barrels per day.

RESULTS OF OPERATIONS AND INVESTING ACTIVITIES

2000 vs. 1999

Oil Sands – Summary of Results

(\$ million, unless otherwise noted)	2000	1999	1998
Revenue	1 336	889	768
Production (thousands of barrels per day)	113.9	105.6	93.6
Average sales price (\$ per barrel)	31.67	23.84	22.18
Earnings	315	167	145
Cash provided from operations	655	405	320
Total assets	5 079	3 178	2 081
Investing activities	1 715	1 085	514
ROCE (%)	22.8	12.9	16.3

EARNINGS ANALYSIS

Record Production and Increased Selling Prices Contribute to Increased Earnings

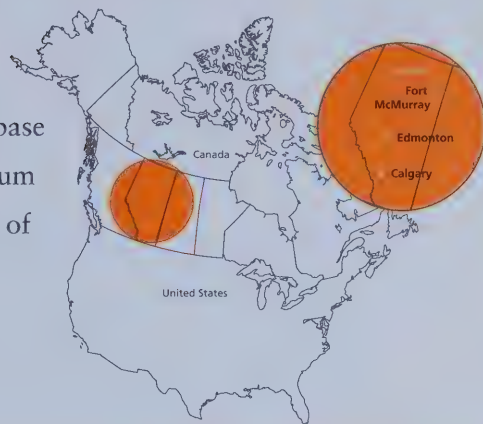
Oil Sands earned \$315 million in 2000 compared with \$167 million in 1999, representing an 88% increase in earnings. Higher earnings were mainly attributable to record Oil Sands production volumes and an increase in crude oil prices. The benchmark WTI crude price increased by 57% over 1999 levels. These favourable factors were partially offset by higher hedging losses, increases in cash and non-cash expenses and lower sour crude oil prices due to widening of the light/heavy crude oil differential. Sour crude oil sales represented about 35% of sales volumes in 2000. Start-up expenses on Project Millennium, totalling \$9 million (after tax) also reduced earnings in 2000.

The combined impact of pricing factors increased earnings in 2000 by \$212 million from 1999 levels.



The year 2001 is a turning point for Oil Sands. We look forward to steady base plant operations and bringing Millennium operations up to a production capacity of 225,000 barrels per day by 2002.

MIKE ASHAR
Executive Vice President,
Oil Sands

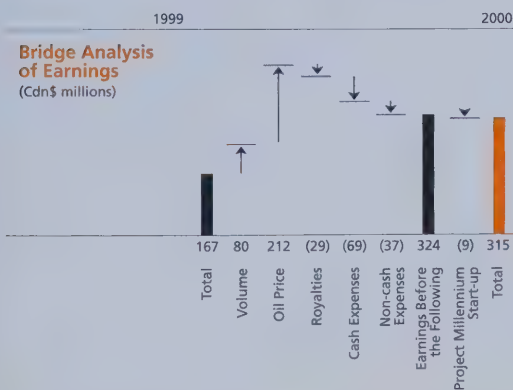


Oil Sands Production Increases 8%, Sales Volumes Up 13%

Oil Sands increased production in 2000 for the eighth consecutive year to an average of 113,900 barrels per day, from 105,600 barrels per day in 1999. This was due to increased mining from the Steepbank Mine and enhancements to base plant operations. Three weeks of prolonged cold weather in December impacted fourth-quarter production which averaged 110,000 barrels per day.

The 5C9 fractionating tower is scheduled to be shut down for maintenance before mid-2001 for approximately eight days, resulting in no oil production during this period. Suncor's 130,000 barrels per day average production target for 2001 includes the estimated impact of this maintenance work and its impact on production.

Higher production increased sales volumes to a record 115,600 barrels per day in 2000, up from 102,200 barrels per day in 1999. This volume increase resulted in a year-over-year earnings improvement of \$80 million. As sales exceeded production in 2000, inventory levels in 2000 declined.



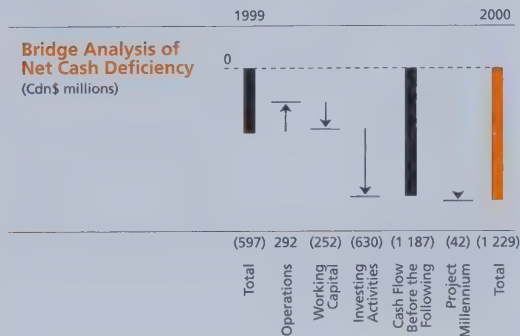
Record sales volume and increased crude price, partially offset by higher expenses and increased hedging losses, resulted in an 88% earnings improvement.

Royalties

Crown royalties payable by Suncor to the Government of Alberta increased 81% from \$48 million in 1999 to \$87 million in 2000 as a result of higher sales volumes and prices. The higher Crown royalties were partly offset by a \$8 million decrease in royalties paid to Union Pacific (Union Resources Inc. now owned by Anadarko Petroleum Corporation) because Suncor mined fewer barrels in 2000 from the lease on which Union has a royalty interest. Mining is currently expected to be completed on the Union lease in the 2001/2002 time period.

The combined impact of the above factors was a net increase in total royalties expensed, which reduced earnings by \$29 million after tax.

Crown royalties in effect for Suncor's existing Oil Sands operations require payments to the Government of Alberta of 25% of revenues less allowable costs (including capital expenditures), subject to a minimum payment of 5% of gross revenues. In 2000, Suncor made Crown royalty payments based on the 5% minimum royalty. Suncor



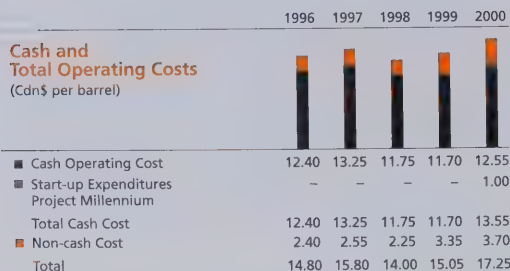
Capital spending on Project Millennium reached its peak in 2000, which is reflected in increased investing activities and working capital increase due to increased inventory value and lower payables at the end of the year. This was only partly offset by improved cash flow from operations.

transitioned to a generic oil sands royalty agreement with the Alberta government in 1999 that provides Suncor with additional allowable cost deductions to a maximum of \$158 million per year for 10 years (related to Suncor's original investment in the Oil Sands facility). In 2001, the minimum royalty rate will change to 1% of gross revenues. Suncor currently expects to pay Crown royalties at the minimum 1% rate until 2008. This is based on assumptions relating to future oil prices, production levels, operating costs and capital expenditures.

Expenses Increased

Expenses in 2000 increased by 35% over 1999 levels. The increase in expenses reduced Oil Sands earnings by approximately \$115 million after tax. Cash expenses increased, resulting in a \$69 million reduction in earnings. This was largely a result of increased sales levels and higher energy costs. Ore quality variability encountered during the year also contributed to the increase in costs, as operations were modified to minimize the impact. Ore quality can be expected to vary from time to time as different parts of an ore body are mined. Suncor will continue to assess ore quality for its impact on operations and costs. In addition, there were higher maintenance and operating costs relating to concurrently mining leases on both sides of the Athabasca River. Mining operations on the original leases west of the Athabasca River are expected to be shut down in 2001/2002, thereby eliminating these inefficiencies.

In addition to factors related to the current operations, cash expenses increased due to Project Millennium start-up costs of \$9 million after tax.



Cash operating costs increased, reflecting higher operating and maintenance costs. Non-cash costs are up as a result of the higher asset base associated with the increased production and the acceleration of depreciation costs associated with the original leases.

Overburden

Material lying on top of the oil sands that must be removed before mining. Consists of muskeg, glacial deposits and sand

Maintenance Shutdown

Preventative maintenance activities that involve shutting down major parts of, or an entire facility

Non-cash charges (depreciation, depletion and amortization) increased by \$55 million due to:

- mine plan changes that increased **overburden** amortization charges by \$11 million,
- increased overburden amortization charges of \$13 million due to the increase in production volumes,
- a higher depreciation expense of \$18 million due to capital additions that increased production,
- higher depreciation of \$11 million associated with the closing of the original leases earlier than anticipated, due to a 20 million barrel reduction in reserves recognized in 1999, and
- higher turnaround amortization charges of \$2 million as a result of planned **maintenance shutdown** work in 1999. The \$55 million increase in non-cash charges reduced earnings by \$37 million.

Per Barrel Operating Costs Increased

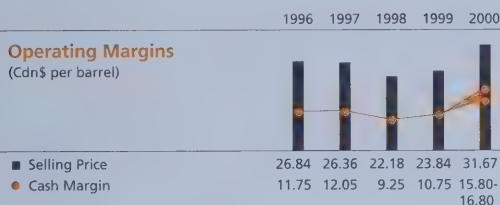
Cash operating costs increased to \$13.55 per barrel in 2000, including \$1 per barrel related to Project Millennium start-up and overburden expenditures. This compares to \$11.70 in 1999. Excluding the Project Millennium component, the increase of \$0.85 per barrel is due to costs associated with higher energy expenses and variable ore quality. The negative impact of these cost factors was partially offset by higher volumes.

Total operating costs per barrel in 2000 were \$17.25 compared with \$15.05 per barrel in 1999. Higher total operating costs were due to the same factors that affected cash operating costs, as well as increased amortization and depreciation expenses.

Working Capital

The excess of current assets (excluding cash) over current liabilities. The excess measures the ability of a business to finance current operations; for example, whether debt will need to be incurred to fund growth activities

* This section contains forward-looking information. Also refer to the Overview *** on page 29 of this report.



The increase in margin in 2000 reflects a 57% increase in crude oil price realizations and higher cash operating costs. The margin improvement was reduced by losses associated with Suncor's hedging program that reduced the margin by \$7.55 per barrel. The variation in cash margin shows the margin with and without the effect of start-up expenses for Project Millennium incurred in 2000 only. Without start-up expenses, the cash margin was \$16.80, and with those expenses it was \$15.80.

Selling price – The average price from the sale of crude oil, including the impact of hedging activities.

Cash margin – The difference between the selling price received for products sold and cash operating cost per barrel plus royalties per barrel.

Cash Margin Increased 47% to \$15.80 per barrel in 2000

Oil Sands' cash operating margin was \$15.80 in 2000 compared with \$10.75 per barrel in 1999. The following factors influenced cash margins during the year:

- higher crude prices (before hedging) had a favourable impact of \$15.40 per barrel,
- hedging losses had an unfavourable net impact of \$7.55 per barrel,
- cash operating costs had an unfavourable impact of \$0.85 per barrel,
- Millennium start-up and overburden removal costs had an unfavourable impact of \$1 per barrel, and
- higher royalties had an unfavourable impact of approximately \$0.95 per barrel.

NET CASH DEFICIENCY ANALYSIS

Cash flow provided from operations was \$655 million in 2000 compared with \$405 million in 1999. An increase of \$292 million was primarily due to improved earnings. These earnings were partially offset by Project Millennium's \$42 million start-up and overburden removal costs.

Oil Sands had an increase in **working capital** of \$252 million relative to 1999. The increase was primarily due to increased inventory value and lower accounts payable and accruals that reflected lower Project Millennium activity at the end of 2000. Payables were lower because major components of the project were received and paid for by the end of 2000. These factors were partly offset by lower trade receivables in 2000 compared with 1999, primarily due to the sale of \$11 million of receivables.

Investing activities at Oil Sands increased by \$630 million to \$1.7 billion in 2000 from \$1.1 billion in 1999. The increase was primarily due to \$1.6 billion in spending on Project Millennium (including capitalized interest of \$90 million).

These combined factors resulted in an increase in net cash deficiency from \$597 million in 1999 to \$1.229 billion in 2000.

OUTLOOK ***Project Millennium**

Suncor's \$2.8 billion Project Millennium is designed to further increase Oil Sands production capacity, improve operational reliability and reduce operating costs.

Project Millennium is designed to increase production capacity to 225,000 barrels per day by 2002. Suncor's production goal for 2002 is estimated at an average of 210,000 barrels per day due to planned maintenance shutdown work that year. In 2000, Suncor announced a long-term sales agreement with Consumers' Co-operative Refineries Limited (CCRL). Suncor expects to begin supplying CCRL with 20,000 barrels per day of sour crude oil production from its Millennium expansion facilities by late 2002.

Project Millennium calls for an expanded mine, additional mining equipment, increased energy services support and twinning of the bitumen extraction and upgrading processes. The twinning of these facilities is expected to allow some level of cash flow to continue during scheduled plant maintenance work by allowing a portion of the operations to continue production while maintenance work elsewhere at the plant is carried out.

Proven and Probable Reserves

Annual estimates are made by Suncor of recoverable bitumen reserves associated with Company surface mineable oil sands leases. The estimates are allocated between proven and probable categories based upon criteria agreed to by management and reviewed by independent consultants. The proven reserves are considered to be conservative estimates in which there is a very high degree of confidence. Probable

reserves incorporate portions of the mine that have a lower drilling density and are expected to be recovered under current approvals for a period in excess of 30 years, if further expansions do not occur. There is at least a 50 per cent chance that the proven plus probable reserve estimates will be exceeded. The bitumen estimates are converted to synthetic crude estimates on the basis of yields currently being obtained.

Assuming estimated economies of scale and reliability improvements are achieved, management believes Oil Sands could reduce its cash operating costs from its 2000 level of \$12.55 per barrel (excluding Project Millennium costs) to the \$8.50 to \$9.50 per barrel range in 2002. These estimates were developed in 1998 based on an assumed natural gas price of approximately \$2.30 per thousand cubic feet (mcf), and other assumptions relating to key variables, including the targeted level of oil production. Accordingly, these estimates are subject to change and their achievement cannot be assured. For example, these estimates do not include the impact of maintenance activities now scheduled for 2002, or changes in natural gas prices which potentially impact cash operating costs by approximately \$0.50 per barrel for every \$1 per mcf variance from the \$2.30 per mcf assumption.

Oil Sands has **proven and probable reserves** of 422 million barrels and 2.034 billion barrels respectively on the leases it currently has regulatory approval to mine. Management believes these reserves are sufficient to support Project Millennium's planned production target of 225,000 barrels per day for a period in excess of 30 years. These reserve totals do not include the Firebag in-situ heavy oil leases described below or other oil sands leases that Suncor owns because regulatory approval to proceed with recovery from these leases must be obtained before reserves are recognized. Additional reserves would only be recognized as Suncor completes further drilling and analysis on these leases and receives approval to proceed with the Firebag Project from the Board of Directors and regulatory authorities.

Revised Cost Estimate for Project Millennium

In October 2000, a thorough analysis was completed on Suncor's Project Millennium that resulted in a revised capital cost estimate of \$2.8 billion. In the first quarter of 2000, Suncor had estimated project costs could be as high as \$2.45 billion, up from the original estimate of \$2 billion. The capital cost estimate increased to \$2.8 billion as a result of higher labour, fabrication and material costs and a \$150 million change in the project's scope. The additional capital costs are expected to be financed through internally generated cash flow and additional borrowing.

Management believes that despite the added costs, Project Millennium is able to yield economic returns in excess of its 11% cost of capital if the benchmark WTI price averages U.S.\$15 per barrel (and escalated at 2% per year).

At year-end, the project was 70% complete with engineering finished and all significant materials purchased. The focus for 2001 is to complete construction and begin commissioning in the second half of 2001. Full production capacity of 225,000 barrels per day is targeted by 2002.

Risk Factors Related to Project Millennium

At this stage, the main risks to Project Millennium execution include the potential for reduced productivity and increased costs that can be associated with weather or unforeseen disruptions in the supply of labour. While Project Millennium design mainly utilizes established technologies, the commissioning and integration of the new facilities with the existing asset base could cause delays in achieving the targeted production capacity of 225,000 barrels per day by 2002.

Beyond Project Millennium

In early 2000, Suncor announced a plan to further expand its oil sands facilities beyond the Project Millennium expansion currently in process, with a proposed investment of \$750 million in the Firebag **In-situ** Oil Sands Project and further Oil Sands plant expansion. The commercial-scale Firebag Project is targeted to add approximately 35,000 barrels of bitumen per day in 2005. To process the additional bitumen, Suncor plans to add a vacuum tower complex to increase Oil Sands upgrading capacity to 260,000 barrels of oil per day in 2005. These plans are subject to Board of Directors and provincial regulatory approvals. Suncor submitted regulatory approval applications for the Firebag Project in 2000, and expects a regulatory decision in 2001. Subject to these approvals, construction of facilities for the first stage is scheduled to begin in the second half of 2001, with start-up in late 2003 and commissioning in 2004–2005.

In-situ

In-situ or "in place" refers to methods of extracting heavy oil from deep deposits of oil sands with minimal disturbance of the ground cover.

Co-generation

The simultaneous production of electricity and steam from one energy source, e.g. natural gas.

The Company's long-term vision is to ultimately produce 140,000 barrels of bitumen per day from the Firebag Project by the end of this decade, and to increase total production at its Oil Sands facilities, through a combination of oil sands mining and in-situ development, to approximately 400,000 to 450,000 barrels of oil a day in 2008. Any such plans toward realizing this long-term vision would be subject to Board of Directors and regulatory approvals.

Leveraging Alliances to Support Oil Sands Expansion

In March 1999, Suncor signed an agreement with TransAlta to build, own and operate a **co-generation** facility at Oil Sands with a portion of its output to help meet Suncor's long-term electricity and steam needs. This facility commenced operations early in 2001. TransAlta also assumed responsibility for operating Suncor's existing utility plant at Oil Sands on October 1, 1999.

In Spring 2000, Suncor and Williams Energy Canada, Inc. (Williams) began construction of the Hydrocarbon Liquids Conservation Project. This project is designed to extract and separate natural gas liquids and olefins from "off-gas," a byproduct of the Oil Sands upgrading process. The recovered liquids and olefins will be transported in batches via Suncor's Oil Sands pipeline to Williams' Redwater, Alberta facility for further processing. Management believes the project will help reduce sulphur dioxide emissions at Oil Sands and provide additional revenue for Suncor.

RISK/SUCCESS FACTORS AFFECTING OVERALL PERFORMANCE

The profitability of Suncor's Oil Sands business is influenced by world crude oil price levels that are difficult to predict and impossible to control. In addition, the light/heavy oil differential can have an impact on earnings. In 2000, this differential widened resulting in reduced earnings. Management believes the differential will trend toward more historical ranges in 2001 if the demand for heavy oil increases as anticipated.

Unplanned production or operational outages and slowdowns, particularly those that are weather-related, can be expected from time to time.

Suncor's relationship with its employees and provincial building trade unions is important to its future success because work disruptions have the potential to adversely affect Oil Sands operations and growth projects. Suncor's collective agreement with the Communications, Energy and Paperworkers Union Local 707 expires on May 1, 2001. Management believes its positive working relationship will continue and that a new agreement should be reached without work interruptions.

Labour agreements with other building trades expire on April 30, 2001. While Suncor is not a direct party to these agreements, they impact the Company as these trades supply labour for much of Project Millennium. Project Millennium management has developed a working relationship with the trade unions and believes a satisfactory resolution will be reached and progress on the project will not be impeded.

Also refer to "Environmental Regulation, Risk/Success Factors" in the Corporate section of this MD&A.

Management's Discussion and Analysis

Natural Gas

OVERVIEW

Suncor's Natural Gas (NG) business, based in Calgary, Alberta, explores for, develops, produces and markets natural gas and natural gas liquids from the Western Canada Sedimentary Basin.

In addition to conventional production, NG is acquiring land to explore for, develop and produce coal bed methane, and is developing new service offerings to the resource sector. To date, the coal bed methane business and service offerings have not engaged in any material operations and have not earned any revenues.

Strategic Focus

In the first quarter of 2000, a study was initiated to examine ways to improve financial and operating performance and to identify profitable growth areas for Exploration and Production (E&P), the Company's conventional oil and natural gas business. The information from the study was used to create the E&P long-term strategy that repositioned the business with a focus on natural gas and natural gas liquids, and renamed it Natural Gas (NG). NG has a goal to achieve at least 10% return on capital within five years (at mid-cycle commodity prices in the U.S. \$3 – U.S. \$3.50/mcf price range). The strategy for improving profitability is built on a much sharper focus on natural gas, building more competitive operating areas, improving base business efficiency and creating new services for the resource sector.

Specific strategies implemented as a result of this repositioning have had a significant impact on financial and operating results for 2000.

A portfolio optimization program was initiated in 1997 to improve the quality of the conventional asset base and net cash position through the sale of non-strategic properties. Divestments associated with the optimization were accelerated in 2000 to sharpen NG's focus on natural gas. Divestment of non-core assets contributed \$314 million in 2000 to net cash

surplus, an increase of \$224 million over 1999 contributions and \$64 million over the Company's target of \$250 million. Property dispositions represented production of 10,000 barrels of oil equivalent per day (BOE/d) (100 million cubic feet equivalent per day (mmcfe/d)) at the time of the sale, including 7,000 BOE/d of crude oil and bitumen. As a result, NG's annual average production for 2000 declined to 27,200 BOE/d or 272 mmcfe/d. Production came principally from three key asset areas in western Alberta and northeastern British Columbia. Natural gas and natural gas liquids accounted for approximately 92% of production volume at the end of 2000.

RESULTS OF OPERATIONS / INVESTING/EXPLORATION ACTIVITIES

2000 vs. 1999

Natural Gas – Summary of Results

(\$ millions unless otherwise noted)	2000	1999	1998
Revenue	428	306	290
Conventional production (thousands BOE/d)	27.2	36.0	41.0
Average sales price (including impact of hedging)			
Natural gas (\$/thousand cubic feet)	4.72	2.44	1.95
Crude oil (\$/barrel)	29.50	20.94	20.14
Operational earnings	59	22	21
Net earnings	98	41	24
Cash flow provided from operations	238	172	167
Total assets	762	962	943
Capital and exploration expenditures	127	200	242
Return on capital employed (%)	17.2	5.5	3.3



We have made significant progress in our strategy to sharpen our focus on natural gas and reduce our costs. We'll continue to look for profitable opportunities for growth.

DAVE BYLER
Executive Vice President,
Natural Gas



EARNINGS ANALYSIS

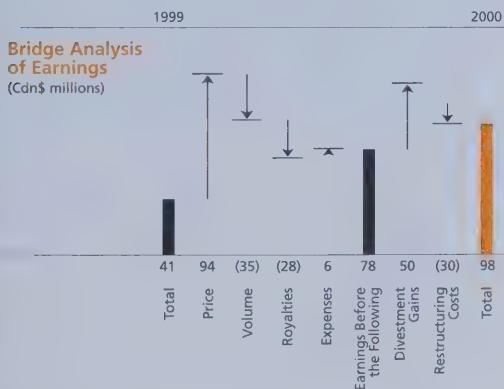
Earnings Increased by 139% on Asset Divestment Gains and Stronger Commodity Prices

Net earnings were up more than 139% over 1999 levels to \$98 million, primarily due to divestment gains and stronger natural gas prices. Operational earnings, which exclude the impact of asset divestments and restructuring charges, increased by \$37 million to \$59 million in 2000 from \$22 million in 1999. This was primarily due to higher commodity prices and was partially offset by lower production volumes and higher exploration and royalty expenses.

Cash flow from operations rose to \$238 million from \$172 million in 1999, again mainly due to higher natural gas prices.

Natural Gas Prices Increased 93%

In 2000, NG's price averaged \$4.72 per thousand cubic feet (mcf) of natural gas, compared with \$2.44 per mcf in 1999.



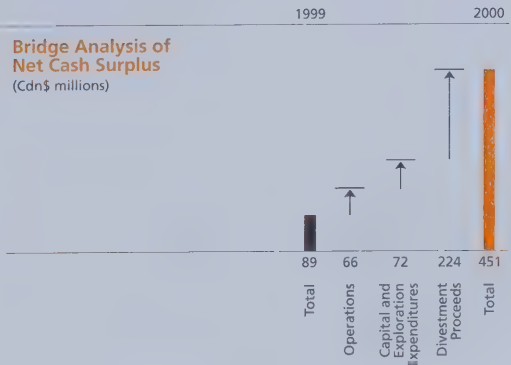
Higher commodity prices and divestment gains more than offset the decline in production from divestments and restructuring costs.

Increased prices in 2000 were a result of increased demand and improved access to U.S. markets coupled with a relatively flat natural gas supply in North America. While crude oil made up only 15% of NG's production in 2000, crude prices were also higher, averaging \$29.50 per barrel (after hedging losses), compared to \$20.94 per barrel (after hedging losses) in 1999.

The combined impact of the above pricing factors increased earnings by \$94 million.

Production Declined 24% from 1999 Levels

NG's natural gas and liquids volumes declined to an average of 27,200 BOE/d (272 mmcf/d) in 2000, from an average of 36,000 BOE/d in 1999. The main reasons for production declines were asset divestments associated with portfolio optimization during 1999 and 2000 (representing annual production of 1,500 and 5,500 BOE/d respectively) and natural reservoir declines. The decrease in volumes reduced earnings by \$35 million compared to 1999.



Year-over-year improvement of \$362 million in NG's net cash flow was the result of lower capital and exploration spending, proceeds from property dispositions and higher operating cash flow due to higher commodity prices.

* This section contains forward-looking information. Also refer to the Overview *** on page 29 of this report.

Restructuring Charges
See note 3 to the Consolidated Financial Statements.

Royalties Increased with Higher Commodity Prices

Royalties increased to \$11 per BOE (\$1.10 per mcfe) in 2000, from \$4.26 per BOE (\$0.43 per mcfe) in 1999 due mainly to the increase in commodity prices. The increase in royalties reduced earnings by \$28 million.

Total Expenses Reduced from 1999 Levels

Total expenses, excluding royalties and **restructuring charges**, were reduced by \$12 million in 2000 from 1999 levels. This reflected divestment activity in 1999 and 2000. Lower non-cash expenses and lower operating expenses were partially offset by higher exploration expenses.

Non-cash expenses (depreciation, depletion and amortization) decreased by \$9 million as a result of asset divestments. Operating expenses were reduced by \$14 million compared to 1999 levels, due to asset divestments and improved base business efficiency. Exploration expenses were up \$13 million in 2000 over 1999 due primarily to an increase in dry hole costs.

Combined, the above factors increased earnings by \$6 million year-over-year.

Asset Divestment Gains

Completion of NG's portfolio optimization program in 2000 yielded after-tax gains of \$69 million, \$50 million higher than the gains reported in 1999.

Restructuring Charges

As a result of restructuring, charges of \$65 million were recorded in the year. Earnings were reduced by \$30 million.

Net Cash Surplus Analysis

NG had a net cash surplus of \$451 million in 2000, an improvement of \$362 million compared to the net cash surplus of \$89 million in 1999. This improvement was due to an increase in divestment proceeds of \$224 million, a reduction in capital and exploration investing activities of \$72 million and an improvement in cash from operating activities of \$66 million.

Capital and Exploration Investing Analysis

In 2000, NG's capital expenditures were \$127 million, \$73 million less than in 1999. This resulted from less exploration drilling, no heavy oil expenditures and lower gas plant, facility and well equipment expenditures. Divestment proceeds increased \$224 million as a result of completing the strategic divestment program. The positive cash flow from net investing activities was part of NG's cash flow management program to support other Suncor growth initiatives.

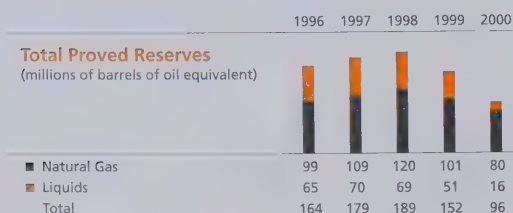
During 2000, Natural Gas focused on rationalizing its asset base and bringing proven undeveloped reserves into production. This increased the five-year finding and development costs (excluding acquisitions) to \$11 per BOE, for the five-year period ended 2000, from \$8.25 per BOE, for the five-year period ended 1999.

During 2000, negative proven reserve revisions of eight million BOE (approximately 5.5% of reserves at the beginning of 2000) were recorded. This adjustment reflected a combination of lower than expected production and new information, which resulted in the downward revision. Future revisions – positive or negative – are dependent upon such factors as actual production from reservoirs, operating costs, price assumptions and plans associated with the presence of infrastructure. These revisions were partially offset by reserve additions of five million BOE.

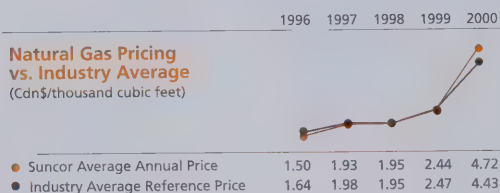
OUTLOOK *

Management expects the Company's natural gas strategy announced in April of 2000 will improve the bottom line of the Natural Gas business that is strategically important to Suncor. Natural gas production continues to benefit Suncor because it diversifies the Company's product portfolio and supplies a cleaner burning fuel, relative to crude oil, to meet growing market demand in North America.

Natural gas production also provides a natural hedge against growing internal natural gas demands.



During 2000, Natural Gas focused on rationalizing its asset base, primarily through the sale of oil properties, and bringing proven undeveloped reserves into production.



NOTE: 2000 Industry average reference price is an estimate.

During 2000, NG reduced annualized costs by approximately \$15 million, approximately 80% of its \$18 million to \$20 million target. Consolidation of the asset base, organizational restructuring and a reduction of about 70 positions in the NG workforce contributed to reduced operating costs.

The remainder of the \$18 million to \$20 million annualized cost reduction target is expected to be achieved through active management of general and administrative costs. Plans to further improve efficiency and lower operating costs will focus on strategic partnerships, operating alliances and technology applications.

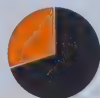
Divestments associated with portfolio optimization generated \$314 million for the Company in 2000. With this transition now complete, management expects any acquisitions and divestments of conventional assets that may occur in 2001 will further focus NG on growth and consolidation around its three core areas in western Alberta and northeastern British Columbia.

Coal Bed Methane

In 2000, NG continued to investigate coal bed methane (CBM) as a new natural gas source for the Company. Other companies have commercially viable CBM production in the United States. Suncor is currently examining the viability of CBM projects in the United States, Australia and Canada. At year-end, Suncor had no CBM operations, but did have property in Australia, the United States and Canada, and options with respect to property in the United States.

In addition to its potential to add to Suncor's natural gas volumes, some methods of CBM production may have unique environmental benefits. Suncor is participating in research and development initiatives to investigate the potential of coal beds to sequester carbon dioxide (CO₂), a waste greenhouse gas emission. In addition, CO₂ pumped into the coal bed may provide an economic means of increasing production of natural gas from the coal.

2000 Suncor Natural Gas Markets



	(mmcf/d)	(%)
System	59	30
Direct	141	70
Total	200	100

Natural Gas believes its gas portfolio is positioned to take advantage of improved pricing fundamentals.

Risk/Success Factors Affecting Performance

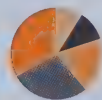
The risks associated with Suncor's natural gas activities and commodity pricing should not be underestimated or viewed as predictable. Suncor expects that both natural gas and crude oil pricing will continue to be volatile due to the cyclical nature of supply and demand for these commodities.

Management continues to believe the single most important factor that will influence Natural Gas' long-term performance is its ability to consistently and competitively find and develop reserves that can be brought on stream economically. Market demand for land and services can also increase or decrease operating costs.

Management believes there are risks and uncertainties associated with obtaining regulatory approval for exploration and development activities. Working in other countries could increase these risks and add to costs or cause delays to these projects. The Company continues to work at reducing these risks through proactive consultation with stakeholders.

Also refer to "Environmental Regulation Risk/Success Factors" in the Corporate section of this MD&A.

Direct Proprietary Gas Sales



	(mmcf/d)	(%)
British Columbia	13	9
Midwest U.S.	15	11
Eastern Canada	26	19
California	40	28
Alberta	47	33
Total	141	100

System Proprietary Gas



	(mmcf/d)	(%)
TransCanada Gas Services	31	53
Pan Alberta	17	29
Canwest	2	3
Other	9	15
Total	59	100

Management's Discussion and Analysis

Sunoco

OVERVIEW

Sunoco Inc., Suncor's wholly owned subsidiary, operates a refining and marketing business in central Canada. Sunoco is strategically integrated with Suncor's upstream Oil Sands operations in western Canada. Its Sarnia Refinery effectively integrates Suncor's upstream and downstream businesses as part of the "value chain." The refinery has the capacity to refine 70,000 barrels of petroleum feedstocks from Oil Sands and other sources into gasoline, **distillates** and petrochemicals. Sunoco, in turn, benefits from having access to a reliable, long-term supply of Oil Sands feedstocks. This integration strengthens the Company as a whole.

Sunoco markets 57% of the refinery's production through controlled distribution networks in Ontario that sell gasolines and diesel to retail customers. These are:

- 301 Sunoco retail service stations,
- 11 Sunoco-branded Fleet Fuel Cardlock sites,
- 154 Pioneer-operated retail service stations (Pioneer Group Inc. is an independent retailer with whom Sunoco has a 50% joint venture partnership), and
- 54 UPI-operated retail service stations and a network of bulk distribution facilities for rural and farm fuels. (UPI Inc. is a 50% joint venture company owned by Sunoco and GROWMARK Inc., a Midwest U.S. agricultural supply and grain marketing co-operative.)

Approximately 40% of Sunoco's refined products were sold to wholesale and industrial accounts in Ontario and Quebec. Jet fuels, diesel and gasolines comprised the highest volume of sales.

The remaining 3% of Sunoco's total refined products sales were petrochemicals sold through Sun Petrochemicals Company, a 50% joint venture between Sunoco and a U.S. refinery.

Sunoco's Integrated Energy Solutions business has been marketing natural gas in Ontario since 1997. Sunoco serves more than 130,000 commercial and residential customer accounts in Ontario.

RESULTS OF OPERATIONS AND INVESTING ACTIVITIES

2000 vs. 1999

Sunoco Results Summary

(\$ millions, unless otherwise noted)	2000	1999	1998
Revenue	2 604	1 779	1 533
Refined product sales (thousands of cubic metres)			
Sunoco retail gasoline	1 539	1 500	1 496
Total	5 360	5 080	5 037
Earnings (loss) breakdown:			
Refining/wholesale	66	10	22
Retail marketing	9	21	16
Energy marketing	(7)	(4)	(1)
Others (tax adjustments)	13	—	—
Total	81	27	37
Cash flow provided			
from operations	174	103	112
Investing activities	59	43	64
Net cash surplus	155	129	55
Return on capital employed (%)	20.5	6.0	7.4



We continue to assess opportunities to expand Sunoco's customer offering in Ontario, and that includes marketing more environmentally focused fuels and possibly electricity.

TOM RLEY
Executive Vice President,
Sunoco



Sunoco Sales by Channel
(percentage)



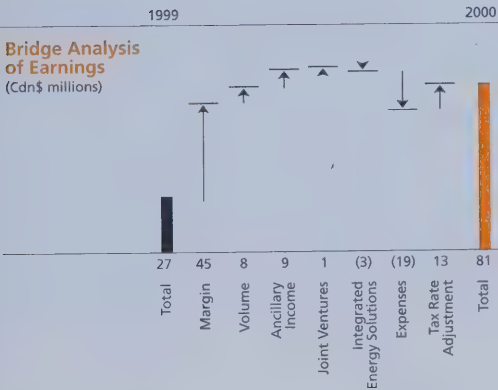
■ Sunoco Retail Service Stations, Cardlock Sites, and Joint-Venture Operated Sites*	57
■ Wholesale/Industrial	40
■ Sun Petrochemicals Company	3

* Controlled distribution channel

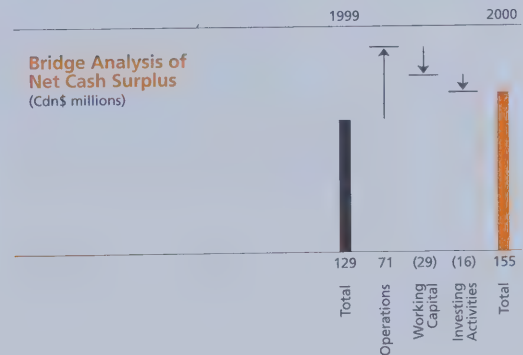
EARNINGS AND BUSINESS ANALYSIS

Overall Earnings Highest on Record

Sunoco's earnings rose to \$81 million in 2000, compared with \$27 million in 1999 – its best earnings on record. This improvement was mainly due to higher volumes and refining margins, higher expenses and losses in Integrated Energy Solutions. Reductions in income tax rates in 2000 increased earnings by a further \$13 million due to the revaluation of future income tax balances. Return on capital employed rose to 20.5%, compared with 6% in 1999, due primarily to improved earnings.



Higher refining margins and volumes were the key factors of improved operating earnings in 2000. Tax adjustments related to revaluation of future income tax balances further increased total earnings by \$13 million.



Improvement in cash flow from operations was partially offset by a lower reduction in working capital compared to 1999. Total capital spending was higher than 1999 due to planned maintenance work completed at the Sarnia Refinery.

Refining Earnings Up \$56 Million Over Last Year

Earnings from refining activities increased to \$66 million in 2000 compared with \$10 million in 1999. Sales of refined products averaged 92,200 barrels per day (bpd), compared with 86,800 bpd in 1999. The higher refining earnings were largely a result of an increase in refining margins to 5.9 cents per litre (cpl) compared with 4 cpl in 1999, due to tight international supply and demand for gasoline and distillates. This factor alone increased year-over-year earnings by \$47 million. Higher wholesale gasoline and distillate sales volumes increased refining earnings by \$6 million over 1999. Improved performance in joint venture investments also increased earnings by \$2 million over last year, due primarily to improved margins. Refining earnings were further improved as a result of a \$5 million benefit from selling lower cost inventory as described in Note 8 to the Consolidated Financial Statements.

During the year, the Sarnia Refinery completed a planned turnaround on time and within budget. However, several unplanned outages at the refinery during the year tightened the product supply and required additional purchases to meet customer demand. Total expenses increased by \$7 million over 1999. This was due to higher natural gas and steam costs, and higher freight costs due to operational outages. The increase in expenses was partially offset by a \$3 million mark-to-market gain on the forward purchase of crude oil.

Sunoco cardlock diesel sales volumes doubled in 2000 due to marketing initiatives and an expansion of the diesel cardlock network. At the end of the year, Sunoco signed a joint venture agreement with Fifth Wheel Corporation, a major truck stop operator, which will provide Sunoco with another controlled distribution channel for distillates sales.



Refining margins improved from last year due to the tight supply situation North America experienced during the year. Retail margins declined, on the other hand, as the rapidly rising costs of crude oil could not be fully recovered.

Reduced Margins Impact Retail Marketing Profitability

Earnings from retail marketing declined to \$9 million in 2000 compared with \$21 million in 1999. Total retail volumes at Sunoco retail service stations grew more than 2% in 2000, increasing earnings by \$2 million over 1999. However, retail gasoline margins from the Sunoco branded network decreased \$7 million from 1999 (6.6 cpl in 2000 compared with 7.4 cpl in 1999). Margins were negatively impacted because the rapidly increasing crude costs could not be fully recovered. Similarly, joint venture profitability declined \$1 million from prior year, although total sales volumes improved by more than 5% over 1999.

Sales of premium products, such as Ultra 94, also declined due to the significant crude oil-driven increase in retail prices during the year. In 2000, a new retailer agreement with different cost and revenue allocations was implemented, contributing to a \$15 million increase in total expenses over 1999. This increase was partially offset by a corresponding increase of \$9 million in ancillary income and royalties under the new arrangement. The net increase of \$6 million was due mostly to commencement of a pilot internet marketing site and higher costs associated with customer loyalty programs and bank credit cards. These cost increases resulted from higher retail prices.

Average throughput at Sunoco-branded sites grew 4% in 2000, to 5.3 million litres per site from 5.1 million litres per site in 1999. The increased efficiency reflects improvement in retail volumes resulting from marketing initiatives.

Sunoco's customer loyalty program with the Canadian Automobile Association's (CAA) Ontario clubs has continued to gain popularity since its introduction in 1998. In 2000, Sunoco encouraged an additional 15% of CAA members to use their cards to earn savings on CAA membership when purchasing Sunoco products and services. Sunoco now serves more than 66% of the 1.8 million CAA members in Ontario.

* This section contains forward-looking information. Also refer to the Overview *** on page 29 of this report.



Site throughput continued to improve, reflecting higher volumes that resulted from marketing initiatives such as the loyalty program with the Canadian Automobile Association (CAA).

* **Throughput per site** – Millions of litres per site based on the average number of sites at the beginning and end of the year.

Sites – Number at year-end, excluding joint venture owned sites.

Sunoco launched a branded Affinity Card Program in July to further strengthen customer loyalty. This program offers discounts to natural gas customers to encourage retail product purchases.

Sunoco's joint venture investment, Pioneer Petroleums, was named a winner of "Canada's 50 Best Managed Private Companies Program" for 2000, sponsored by Arthur Andersen, CIBC and the *National Post*.

Integrated Energy Solutions Loses \$7 Million

Integrated Energy Solutions (IES), Sunoco's retail natural gas marketing division, lost \$7 million in 2000 compared with a loss of \$4 million in 1999. The rapid increase in natural gas prices during 2000 was a major factor, since some of Sunoco's customer contracts were tied to regulated rates that lagged the rising market prices. Over 95% of these agreements have now been restructured to match fixed price sales contracts with fixed price supply, and yield a positive margin in 2001.

IES exited the heating, ventilation and air conditioning market in 2000, and closed its Home Energy Dealer Network. These decisions do not affect Sunoco's interests in the natural gas marketing business. Costs associated with the shutdown were not material to Sunoco's overall earnings.

Net Cash Surplus Analysis

Net cash flow increased to \$155 million in 2000 compared with \$129 million in 1999. Cash flow from operations increased to \$174 million compared with \$103 million in 1999. This was primarily a result of the higher earnings from the refining operations, which were partially offset by lower retail earnings.

Working capital decreased by \$40 million in 2000, down \$29 million compared with a \$69 million decrease in 1999. The decline was due to a \$25 million unfavourable change in current assets, due mostly to higher trade receivables reflecting the increased sales volumes and higher product prices, and lower reduction in inventory compared with 1999. Net change in current liabilities was \$4 million lower than 1999, resulting from the increased costs of feedstocks purchased.

Capital spending increased to \$59 million versus \$43 million in 1999, primarily due to a major hydrocracker maintenance shutdown at the Sarnia Refinery.

OUTLOOK*

Sunoco has identified five focus areas:

- Maximize refinery competitiveness,
- Increase business integration,
- Continue to grow core business,
- Capitalize on long-term growth opportunities, and
- Continue to improve environmental performance.

Maximizing Refinery Competitiveness

Sunoco's goal is to achieve levels of profitability and efficiency at the Sarnia Refinery by 2002 to position it in the top one-third of North American refineries of similar size and complexity. A three-year organizational realignment to reduce refining costs is expected to be completed in 2001. Plans are in place to improve energy efficiency and enhance systems processes.

Ancillary Income

Income earned from such activities as car washes, sale of fast foods and confectionary items

To reduce exposure to energy cost increases expected when the electricity market deregulates, the refinery negotiated a fixed rate supply contract to lock in the cost of a portion of its electricity for three years from the date that electricity deregulation begins. In addition, negotiations continue with TransAlta Energy Corporation to purchase steam and electricity from the Sarnia Regional Co-generation Project that is expected to commence at the end of 2002.

Increased Business Integration

Sunoco restructured in 2000 to increase operating efficiencies. The changes are designed to enable Sunoco to better execute its business strategies by providing greater focus on Sunoco-wide performance. No significant changes have been made to Sunoco's business strategies. The reorganization reduces the number of business units from three to two, called Rack-Back and Rack-Forward. Sunoco will base its financial reporting on this structure starting January 1, 2001.

Under the new structure, Rack Forward will include retail operations, wholesale and commercial sales, natural gas marketing, and the UPI and Pioneer joint venture investments. Rack Back will include refining operations and sales to the refinery's largest industrial and reseller customers, including Sun Petrochemicals Company.

Continued Core Business Growth

Rack-Forward will continue to focus on marketing Sunoco-branded products, managing retail assets, wholesale and commercial sales, joint venture investments, UPI and Pioneer, and natural gas retail sales.

Plans are in place to:

- Integrate marketing strategies across all sales channels to increase effectiveness and reduce costs,
- Implement initiatives to increase sales of premium products, such as Gold Diesel, and to reposition and regain sales volumes of Ultra 94,

- Grow non-fuel revenues (**ancillary income**) in a capital-effective manner through value-added strategic alliances, and
- Continue to develop strategies to increase distillates sales.

Rack-Back is responsible for the procurement and manufacturing of a cost-competitive and reliable supply of petroleum and other energy products. In addition, Rack-Back is responsible for managing sales and distribution to the refinery's largest industrial and reseller customers.

Rack Back will also focus on:

- Creating strategies to reduce product costs, optimize production and improve supply-chain and energy-cost management for long-term growth and competitiveness,
- Positioning Sunoco to meet legislated limits on sulphur content in gasoline and diesel, which will be phased in between 2002–2005, and
- Developing economic options to reduce air emissions at the Sarnia Refinery to help meet Suncor's vision of long-term sustainability.

Capitalize on Long-term Growth Opportunities

Sunoco continues to assess the potential to market electricity in Ontario subsequent to the pending deregulation of electricity services. In conjunction with Suncor's Alternative and Renewable Energy business development group, Sunoco will continue to explore additional energy opportunities in its markets.

To further integrate Suncor's upstream and downstream businesses, Sunoco continues to assess new marketing and refining investment opportunities to grow the future value of Suncor and to capture the greatest long-term value from the increasing production from Oil Sands.

Continue to Improve Environmental Performance

Sunoco continues to focus on environmental issues facing Ontario and Canada and to develop more environmentally responsible products. For example, in an effort to reduce carbon monoxide and carbon dioxide emissions, the Sunoco-branded retail network introduced ethanol-enhanced gasoline in late 1997. In 2000, Pioneer Petroleum, Sunoco's joint venture partner, expanded the market share of ethanol-enhanced gasoline when it joined Sunoco and UPI stations in selling the product.

Sunoco's certification to display Environment Canada's EcoLogo at its gasoline pumps and car washes demonstrates Sunoco's active commitment to offer products and services that meet the Canadian government's environmental labelling guidelines.

Reducing smog is an important goal for Sunoco. Sunoco continues to participate in Ontario's Pilot Emission Reduction Project by using a gasoline additive that reduces nitrogen oxides (NO_x) from tailpipe emissions. This generated a total of 825 tons of NO_x credits for Sunoco in 2000 compared with 275 tons of NO_x emission credits in 1999. The 1999 emission reduction credits were sold to Ontario Power Generation Inc., and the proceeds were used to conduct a refinery-wide emission inventory assessment in 2000.

To support Suncor's goal of meeting or exceeding national and international commitments on greenhouse gas emissions, Sunoco is developing a plan in 2001 to reduce emissions at the Sarnia Refinery by 25% from 1995 levels by 2005.

In 2000, Sunoco worked with Conestoga-Rovers and Associates to pursue opportunities to produce energy from Ontario landfills. Methane gas from landfill sites has the potential to provide a reliable source of fuel for heating and generating electricity and carbon dioxide for possible commercial use. Landfill gas recovery also reduces greenhouse gas emissions and landfill odours.

Risk/Success Factors Affecting Performance

While the downstream business environment improved in 2000 (as reflected in the overall performance), management expects fluctuations in demand for refined products, margin volatility and overall marketplace competitiveness will continue. Management believes the margin and price volatility and the below average inventory levels in crude and refined products that North America experienced in 2000 will continue to impact the business environment in which Sunoco operates in 2001. As Sunoco enters new markets, such as electricity retailing, it could be exposed to margin risk and volatility from either cost and/or selling price fluctuations or risks inherent in entering new markets.

The Canadian refining industry faces significant capital spending to construct sulphur removal facilities. This capital expenditure is required following the passage of legislation that limits sulphur levels in gasoline to an average of 150 parts per million (ppm) from mid-2002 to the end of 2004, and a maximum of 30 ppm by 2005. Actual capital spending required to meet the new standard is subject to the findings of a strategic assessment that is under way. A detailed implementation plan will be completed in 2001. No regulations have been tabled at this time with respect to sulphur levels in diesel, although Suncor expects limits that will be lower than its current capabilities. The cost to comply with these anticipated sulphur in diesel limits could be significant but are not expected to place the Company at a competitive disadvantage.

Also refer to "Environmental Regulation Risk/Success Factors" in the Corporate section of this MD&A.

Management's Discussion and Analysis

Corporate

Sale

See note 5 to the Consolidated Financial Statements.

Lines of Credit

See note 12 to the Consolidated Financial Statements.

Long-term Employee Incentive Plan

See note 13 (b) to the Consolidated Financial Statements.

OVERVIEW

Suncor's corporate centre fulfills a number of roles that include supporting the Company's business units and Board of Directors. Corporate centre personnel are accountable for functions such as legal, taxation, risk management, company-wide human resource programs, treasury, corporate finance, alternative and renewable energy investment assessments, planning and business development, corporate communications and regulatory reporting at the corporate level.

RESULTS OF OPERATIONS AND INVESTING ACTIVITIES

2000 vs. 1999

Expenses Increased

Corporate expenses increased to \$117 million in 2000 from \$49 million in 1999. The primary reasons for the \$68 million increase were an \$80 million write-down of the carrying value of Suncor's investment in the Stuart Oil Shale Project in Australia and the expensing of additional costs of \$12 million on the Stuart Project. These were partially offset by a foreign exchange gain of \$11 million as the Australian dollar weakened against the Canadian dollar. Higher corporate expenses were partially offset by a lower interest expense of \$10 million and a reduction in other expenses of \$3 million. The reduction in interest expense is due to higher capitalization of interest expenses associated with Project Millennium capital spending.

The corporate centre had a net cash deficiency of \$76 million in 2000, largely unchanged compared to the net cash deficiency of \$73 million in 1999.

Consolidated Balance Sheet Analysis

Higher commodity and refined petroleum product prices and higher sales volumes at the end of 2000 compared to the end of 1999 increased accounts receivable by \$165 million. This increase was partially offset by the **sale** of \$35 million in accounts receivable.

An inventory increase of \$31 million represents an increase in upstream inventory levels to reflect crude oil sales in transit at year-end. It is expected there will be a reduction in the inventory level in the first quarter of 2001.

Net capital assets increased by \$1.4 billion in 2000. Capital assets increased by \$1.7 billion due to Suncor's Project Millennium. These increases were partially offset by the sale in 2000 of Natural Gas capital assets with a net book value of \$167 million and a \$56 million write-down of capital assets in the Natural Gas business due to the change in strategy. There was also a before-tax write-down of \$125 million in the carrying value of the Stuart Oil Shale Project asset.

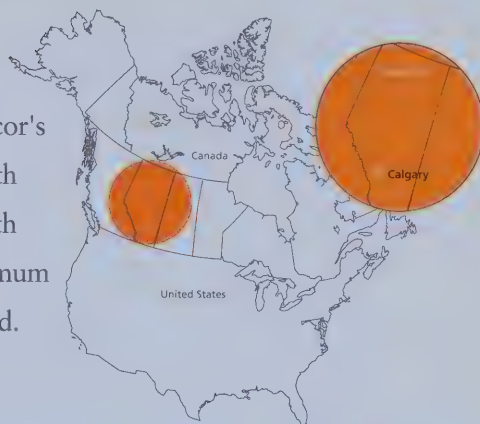
Trade payables and accrued liabilities were \$709 million at the end of 2000, \$93 million higher than at the end of 1999. With the majority of material purchases now completed on Project Millennium, the project liabilities decreased by \$86 million from year-end 1999. More than offsetting this decrease were higher liabilities associated with buying crude oil, feedstocks and refined products from third parties. A portion of the refined product purchases were required in the downstream business due to several unplanned outages at the Sarnia Refinery. Other factors that increased year-end payables and accrued liabilities were higher royalties, resulting from higher commodity prices, and an increase in reclamation activities in all three operating businesses.

Excluding cash, short-term borrowings and the current portion of long-term borrowings, Suncor had a working capital deficiency of \$128 million at the end of 2000 compared to a deficiency of \$225 million at the end of 1999. This \$97 million improvement primarily reflected the impact of higher commodity prices. Suncor had in place \$1.5 billion in unused **lines of credit** to cover working capital deficiencies. With Project Millennium targeted to be in operation at the end of 2001, the working capital position is expected to improve, with the additional revenue resulting from the anticipated higher production levels.



Corporate Office employees are charged with supporting the goals of each of Suncor's businesses and developing strategic growth plans for the Company that ensure growth occurs in a sustainable manner and maximum shareholder value is created and optimized.

MIKE O'BRIEN
Executive Vice President,
Corporate Development
and Chief Financial Officer



For a description of future income tax assets and liabilities on the balance sheet refer to Note 6 in the Consolidated Financial Statements. These balances are expected to fluctuate based upon future earnings and capital expenditure levels. They could also fluctuate if government tax laws and regulations change.

Consolidated Earnings Analysis

Sales and other operating revenues increased to \$3,385 million in 2000, up from \$2,383 million in 1999. The impact of higher commodity prices, both in the upstream and downstream businesses, increased revenues by \$928 million. There were two factors that partially offset the benefit of the higher prices and are reflected in the \$928 million figure. One is the impact of hedging activity in 2000, which reduced year-over-year revenues by \$336 million. The second factor that reduced revenues in 2000 was lower prices from sour crude oil sales due to widening of the light/heavy crude oil differential.

Management believes the differential in 2001 will return to levels within a more historical range as demand is expected to increase, but the timing is difficult to predict because the determining factors are beyond Suncor's control. While crude oil sales volumes increased due to record Oil Sands sales levels, a decrease in conventional liquids and natural gas volumes resulted in a net \$42 million negative impact on revenue. Downstream sales volumes increased 6%, adding \$98 million to consolidated revenues. Additional ancillary income of \$18 million was also recorded in the year.

The impact of higher feedstock and refined product prices in 2000 impacted Suncor's downstream business, which purchased both feedstocks and refined products. In 2000, a planned 32-day maintenance shutdown of the hydrocracker unit that produces transportation fuels, and operating difficulties in the fourth quarter, necessitated the purchase of additional finished product to meet customers' requirements. These factors increased costs for the year by \$288 million.

Operating, selling and general expenses increased by \$144 million, to \$918 million in 2000 from \$774 million in 1999. Higher operating costs in all operations represented \$147 million of the year-over-year increase. The higher operating costs were due mainly to higher Oil Sands volumes, variable ore quality, higher energy costs, higher reclamation expense activities and higher maintenance costs at both Oil Sands and the Sarnia Refinery. The higher maintenance costs reflected a three-week period of extremely cold weather at Oil Sands and problems with major units at the Sarnia Refinery during the fourth quarter.

Increased operating costs were also due to higher expenditures in Sunoco's branded marketing operations. These included costs associated with increasing ancillary revenue, higher advertising expenses, as well as increased bank credit card costs due to the impact of higher crude oil prices that were reflected in higher selling prices and higher volumes. In addition, expenses also increased by \$8 million due to a higher provision for **long-term employee incentive plan** costs in 2000. Costs associated with the Stuart Oil Shale Project were expensed after the asset write-down in the third quarter. This treatment resulted in \$19 million in Stuart Project costs being expensed in 2000. Partially offsetting these increases was a foreign exchange gain of \$11 million due to the weakening of the Australian dollar against the Canadian dollar related to the Stuart Project loan obligations. Volume-related expenses in NG were \$19 million lower because volumes decreased due to property divestments.

Exploration expenses increased by \$13 million in 2000 to \$53 million, primarily as a result of higher dry hole costs.

Royalty expenses increased by \$100 million in 2000 to \$199 million. The increase was primarily due to higher commodity prices which were partially offset by the lower volumes resulting from divestments by the NG business.

* This section contains forward-looking information. Also refer to the Overview *** on page 29 of this report.

Future Income Taxes
See Note 6 to the Consolidated Financial Statements.

Taxes, other than income taxes, increased by \$27 million primarily due to higher sales volumes of taxable products (mainly transportation fuels) in the downstream business.

Depreciation, depletion and amortization (DD&A) increased by \$47 million to \$365 million in 2000 over 1999. An increase of \$55 million was recorded in the Oil Sands business as explained on page 32 under the Oil Sands section (Expenses Increased). DD&A was reduced by \$8 million primarily due to the lower asset base in the NG business after it divested nearly 30% of proven reserves held at the beginning of the year.

While interest costs increased in 2000 to \$112 million from \$71 million in 1999, net interest expense charged to the income statement in 2000 decreased to \$8 million from \$26 million in 1999. This reflected the high level of investment in Project Millennium and the resulting interest capitalization associated with this project. Interest costs associated with the Stuart Oil Shale Project have been charged to the income statement in the second half of 2000 with the decision to write down a portion of the carrying value of the project at the end of the second quarter.

With Project Millennium expected to begin commercial operations by 2002, interest charges now being capitalized will be expensed, thereby reducing future earnings.

Suncor's effective tax rate in both 2000 and 1999 was approximately 40%. The adoption in 2000 of the new standard for **future income taxes** resulted in the recognition of a \$13 million reduction on the balance sheet and a corresponding increase in net earnings due to the revaluation of future income tax balances. This change was due to a reduction in the income tax rates by federal and provincial governments. These reductions only applied to Suncor's downstream business (Sunoco). Under the previous accounting standard, such adjustments would not have been made. As well, there was the recognition of a provincial benefit of \$13 million due to provincial Crown royalties being in excess of the federal resource allowance deduction. This benefit was a result of the high commodity prices that increased Crown royalties and a high level of tax depreciation due to the high investing expenditures.

Suncor believes the effective tax rate in 2001 will be approximately 40%.

OUTLOOK *

In 2001, Suncor priorities include:

Expand Oil Sands Production and Increase Integration

In 2001, Suncor's priority is to commission Project Millennium, a \$2.8 billion project that is expected to increase Oil Sands' production capacity to 225,000 barrels per day by 2002. By increasing production capacity and improving efficiencies, Project Millennium is expected to reduce Oil Sands' unit cash costs.

Suncor's next stage of expansion is expected to progress in 2001 as the Firebag In-situ Oil Sands Project proceeds through the regulatory approval process. This commercial-scale in-situ project is targeted to add approximately 35,000 barrels of bitumen per day in 2005. To process the additional bitumen, Suncor plans to add a vacuum tower complex to increase the Oil Sands upgrading capacity to 260,000 barrels of oil per day in 2005. These plans are subject to Board of Directors and regulatory approvals.

The Company's long-term vision is to ultimately increase total production at its Oil Sands facilities through a combination of oil sands mining and in-situ development to approximately 400,000 to 450,000 barrels of oil per day in 2008. Any such plans toward realizing this long-term vision would be subject to Board of Directors and regulatory approvals.

Suncor's Oil Sands expansion will be supported by the continuing effort to further integrate the Company to capture more of the value between our upstream production and the end consumer. Suncor continues to evaluate several approaches to secure markets and transportation for its increasing Oil Sands production including the possible acquisition or joint venture of a refinery. In addition, the Company will continue efforts to enter into long-term sales agreements with other refiners in both Canada and the United States.

Focus On Base Business Excellence

Although the Oil Sands expansion is a critical part of Suncor's growth strategy, the Company realizes that properly managing its base business is important to achieving strong financial returns. Safe and efficient operations reduce the risk of production loss, environmental liability and the higher costs incurred in conducting unscheduled maintenance. In 2001, all of Suncor's businesses will continue to make base business excellence a priority and will focus on improving operational reliability. A key focus for the future will be to apply technological advancements that increase the efficiency of each business, reduce costs and improve

Dual Trains

The creation of parallel processes for the existing extraction and upgrading facilities along with additional mining equipment and increased energy services support.

environmental performance. Suncor's goal is to be one of the lowest-cost oil producers in North America and a top quartile competitor in each of its businesses.

Increase Emphasis on Sustainability

As the Company expands its hydrocarbon-based businesses with the accompanying increases in greenhouse gas emissions, management believes Suncor also needs to work concurrently toward the development of alternative and renewable sources of energy. Alternative energy sources have the potential for lower environmental impacts as well as creating additional business investment opportunities.

Early in 2000, Suncor announced plans to invest \$100 million in alternative and renewable energy projects over a five-year period. During 2000, many opportunities were investigated and evaluated and Suncor expects that its plans to establish renewable energy businesses in the areas of wind, solar, run-of-river hydro, biomass and landfill gas, will result in investment decisions in 2001.

Suncor's effort to reduce greenhouse gas emissions will also be reflected in its pursuit of greater energy efficiency as an investment in the future viability of the business that could yield cost savings and improve competitive, as well as environmental, performance. Suncor's goal is to meet or exceed relevant national and international commitments to limit greenhouse gases in the atmosphere. In the context of current Canadian commitments, this involves lowering net greenhouse gas emissions to 6% below 1990 levels by 2010; an ambitious target given the Company's vision to produce 400,000 to 450,000 barrels of oil per day by 2008. Achievement of this commitment requires access to the flexibility mechanisms in the Kyoto Protocol, and the implementation of a meaningful credit for early action program in Canada.

Long-term Corporate Development

Suncor will continue to emphasize development of long-term strategic plans aimed at growing its current businesses and identifying ways to broaden the scope of the products and services the Company provides. As the Company moves forward it will work to introduce new strategies and technologies into its business model that will strengthen its economic performance and enhance shareholder value while also furthering its commitment to sustainable development and growth.

In 2001, Suncor will continue to examine development opportunities in surface mineable oil deposits. The Company is currently testing the commercial viability of producing oil

from oil shale with the Stuart Oil Shale Project in Australia and has also assessed potential oil shale deposits in a number of other locations. Suncor is operating the Stuart Oil Shale Project, which is a joint venture with Southern Pacific Petroleum NL/Central Pacific Minerals NL (SPP/CPM).

During 2000, Suncor experienced operational issues with the first phase of the Stuart Oil Shale Project including the discovery of low levels of dioxin in plant emissions. The next stage of this project's commercial development has been put on hold until these issues and concerns about environmental and social impacts are addressed.

RISK/SUCCESS FACTORS AFFECTING PERFORMANCE**Oil Sands**

When Project Millennium is completed, an even greater portion of Suncor's financial performance is expected to be dependent on the performance of its Oil Sands operations. The Oil Sands business could account for 90% of Suncor's upstream production in 2002 compared to 70% in 1998. Assuming estimated economies of scale and reliability improvements are achieved, management believes its per barrel cash operating costs will decrease from 2000 levels in 2002 largely as a result of increased production associated with Project Millennium. See the Outlook section under "Oil Sands" for a more detailed discussion.

Suncor believes the planned increases in Oil Sands production present strategic advantages, as well as issues that require prudent risk management. The strategic advantages of Oil Sands growth include:

- Economies of scale associated with higher levels of production from the existing Oil Sands infrastructure,
- **Dual trains** in the extraction and upgrading processes provide flexibility to schedule periodic plant maintenance while continuing to generate production,
- The ability to leverage demonstrated operational experience and technologies, and
- Production growth without the exploration risk associated with conventional oil and gas operations.

The issues Suncor must manage include, but are not limited to:

- Suncor's ability to finance Oil Sands growth in a volatile commodity pricing environment. (Also refer to the section on Liquidity and Capital Resources.)

- Competition from new entrants in the oil sands business. This could take the form of competition for skilled people, increased demands on the Fort McMurray infrastructure (housing, roads, schools, etc.), or higher prices for the products and services required to operate and maintain the plant.

Suncor has addressed these issues by developing a comprehensive recruitment strategy, working with the community to determine infrastructure needs, designing Oil Sands' expansion to reduce unit costs, capitalizing on technology advancements and seeking strategic alliances with service providers.

- Potential changes in the demand for refinery feedstocks and diesel. Suncor believes it can reduce the impact of this issue by entering into long-term supply agreements with major customers, expanding its customer base and offering customized blends of refinery feedstocks to meet customers' specifications.
- Preservation and protection of the environment. (See Environmental Regulation Risk/Success Factors on page 51.)

Commodity Prices

Suncor's future financial performance remains closely linked to hydrocarbon commodity prices, which can be influenced by a number of factors including global and regional supply and demand factors, worldwide political events and the weather. These factors, amongst others, can result in a high degree of price volatility as illustrated over the last three years when the monthly average price for the benchmark WTI crude oil ranged from a low of U.S.\$11.30 per barrel to a high in 2000 of U.S.\$34.25 per barrel.

Suncor has partially offset the impact of crude oil price volatility by pursuing economies of scale and improving reliability at Oil Sands over the past five years. Crude oil and

natural gas prices are based on a U.S. dollar benchmark, which results in Suncor's earned prices being influenced by the Canadian/U.S. currency exchange rate. This creates another element of uncertainty. The continued weakness in the Canadian dollar versus the U.S. dollar for the last three years (\$0.67 Cdn:U.S.\$ compared to \$0.72 in 1997) increased Suncor's revenues, as measured in Canadian dollars. In the future, the strength of the Canadian dollar relative to foreign currencies could create uncertainties for Suncor. For example, a one cent change in the Australian/Canadian exchange rate on the Stuart Oil Shale Project borrowings will impact Suncor's after-tax earnings by approximately \$1 million. (See Note 2 to the Consolidated Financial Statements.)

Hedging

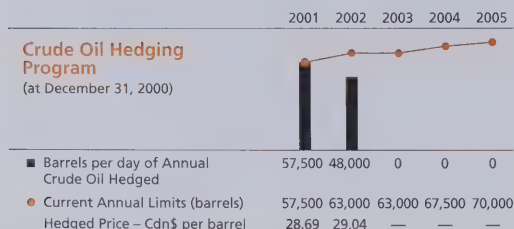
Suncor cannot control the prices of crude oil or natural gas, or currency exchange rates. However, the Company has a hedging program that fixes the prices of crude oil and natural gas and the associated foreign exchange, for a percentage of Suncor's total production volume. Suncor's risk management objective with the hedging program is to lock in prices on a portion of the Company's future production today, to reduce exposure to market volatility and ensure the Company's ability to finance its growth.

The Board of Directors meets with management regularly to assess Suncor's hedging thresholds in light of its price forecast and cash requirements. To add more certainty to Suncor's ability to finance its 2000 and 2001 capital programs, the Board authorized hedging up to 50% of its crude oil volumes in 2000 and 2001 with the authorized limit returning to 30% in 2002, 2003 and 2004. For natural gas, the Board authorized a hedging program that allows up to 50% of Suncor's volume to be hedged in the current year and subsequent year, 30% for the third year, and 15% for the fourth year. See Note 18 to the Consolidated Financial Statements for details of Suncor's hedge position as of December 31, 2000.

In 2000, crude oil, natural gas and currency exchange hedging activities decreased Suncor's earnings by \$259 million. In 1999, hedging activities decreased earnings by \$56 million.

Other Factors

Other critical factors affecting Suncor's financial results include volumes of refined product sales, margins on the sale of refined products, success of the exploration program, interest rates and the Company's ability to manage costs. Also refer to the note *** at the beginning of the MD&A, and to the Company's Annual Information Form, on file with securities regulators or available without charge from the Company.



Suncor uses hedging as a risk management tool to reduce earnings and cash flow volatility. The annual limits may change, subject to Board approval, to reflect management's ongoing assessment of the risk it is willing to accept. The hedged price is a combination of the price for swaps and costless collars, and reflects the hedged foreign exchange rate and spot price, where appropriate. Refer to Note 18 in the Consolidated Financial Statements for additional information.

Sensitivity Analysis

The following sensitivity analysis shows the main factors affecting Suncor's annual pretax cash flow from operations and after-tax earnings based on actual 2000 operations. The table illustrates the potential financial impact of these factors applied to Suncor's 2000 results. It should be noted that Natural Gas production in 2001 is expected to be lower than the 2000 average due to property divestments and natural reservoir declines. As well, with Project Millennium commissioning planned for the second half of 2001, Oil Sands production is expected to increase over 2000 levels. A change in any one factor could compound or offset other factors. Because this table does not incorporate potential cross-relationships, it would not necessarily accurately predict future results.

In addition to these specific, known requirements, Suncor expects further changes will likely be required. Some of the issues under discussion include the possible cumulative impacts of oil sands development in the Athabasca region; the need to reduce or stabilize various emissions; issues relating to global climate change and greenhouse gas, including the potential impacts of government regulation as it relates to these issues; land reclamation and restoration; water quality; and reformulated gasoline to support lower vehicle emissions. Changes in regulation could have an adverse effect on Suncor from the standpoint of product demand, product formulation and quality, and methods of production and distribution and cost of operations. For example, cleaner-burning fuels may be mandated, causing

Sensitivity Analysis

(\$ millions)	2000 Average	Change	Approximate change in Pre-tax cash flow from operations After-tax earnings	
Oil Sands				
Price of crude oil (\$/barrel)	31.67	U.S.\$1.00	26	15
Light/heavy differential (\$/barrel)	9.38	U.S.\$1.00	15	9
Sales (barrels/day)	115,600	1,000	12	7
Natural gas				
Price of natural gas (\$/thousand cubic feet)	4.72	0.10	5	3
Production of natural gas (millions of cubic feet/day)	200	10	11	4
Sunoco				
Retail gasoline margin (cents/litre)	6.6	0.1	2	1
Refining/wholesale margin (cents/litre)	5.9	0.1	4	2
Consolidated				
Exchange rate: Cdn\$:U.S.\$	0.67	0.01	13	7
Interest rate	6.0%*	1%	1	0

* Borrowings with interest at variable rates averaging 6.0% at December 31.

Environmental Regulation Risk/Success Factors

Environmental legislation affects nearly all aspects of Suncor's operations. These regulatory regimes are laws of general application that apply to Suncor in the same manner that they apply to other companies and enterprises in the energy industry. They require Suncor to obtain operating licences and to impose certain standards and controls on activities relating to mining, oil and gas exploration, development and production and the refining, distribution and marketing of petroleum products and petrochemicals. Environmental assessments are required before initiating most new projects or undertaking significant changes to existing operations.

additional costs that may or may not be recoverable in the marketplace. The complexity and breadth of these issues make it extremely difficult to predict their future impact on the Company. Management anticipates capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent environmental regulations.

Liquidity and Capital Resources

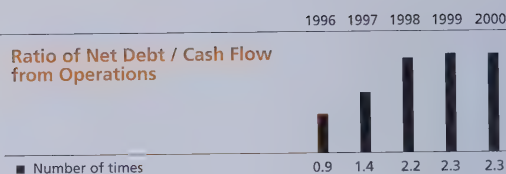
Suncor's growth initiatives have increased net debt to \$2.2 billion at December 2000 from \$1.3 billion at December 1999. Capital investment from 2001 to 2003, including spending for the completion of Project Millennium, is currently planned in the \$2.5 billion to \$3 billion range. This is similar to the three-year period from 2000–2002.

In light of the revised Project Millennium capital cost estimate of \$2.8 billion and the unpredictability of crude oil prices, Suncor has arranged an additional \$500 million credit facility for one year. Suncor management believes its sufficient borrowing capacity and cash flow from operations will be sufficient to fund the completion of Project Millennium and ongoing operations and investing activities.

Crude oil prices, and to a lesser degree natural gas prices, and capital investing plans are important components in determining Suncor's yearly earnings and cash flow and net debt levels. In 2000, as in 1999, crude oil prices experienced extremes that were unanticipated. In 1999, the benchmark WTI price reached a low in the U.S.\$10 per barrel range and reached a high of U.S.\$40 per barrel at one point in 2000.

Suncor management does not believe crude oil prices will be sustained at the 2000 price level of an average U.S.\$30 per barrel. In the preparation of its business plan for the next three years, Suncor has used a crude oil price assumption that is below the consensus of third party consultants. Suncor's business plans are based on assumptions that are generally at the conservative end of the range of such assumptions.

Suncor's financing and capital spending plans are based upon the following planning assumptions:



Ratio could remain in the 2.0 – 2.5 times range depending upon commodity price assumptions and the timely completion and successful implementation of Project Millennium.

With the higher forecasted spending associated with Project Millennium, Suncor believes the debt/cash flow ratio could climb from its 2000 year-end level of 2.3 times to a short-term peak in the 3.5 times range. This reflects Suncor's current planning assumptions, especially the WTI price assumption. Utilizing assumptions for WTI that would average approximately U.S.\$25 per barrel and a Henry Hub natural gas price assumption of U.S.\$6.10, this ratio would be expected to be in the 2.0 – 2.5 times range. This is subject to the timely completion and successful implementation of Project Millennium and contingent on the Company's financial assumptions. Management believes expected increases in cash flow will reduce the debt/cash flow ratio to Suncor's long-term goal of 1.5 – 2.0 times range by the year 2002.

Based upon the prior year's capital investment levels and currently planned future investment levels, Suncor does not expect its upstream operations to be cash taxable until the middle of the current decade.

	2000 Actual	Current Plan	Last Year's Plan
Planning Assumptions	Average for the year	Average next 3-year range	Average next 3-year range
Crude oil – WTI U.S.\$ per barrel	30.25	18.00 – 19.00	17.50 – 18.00
Natural gas – U.S.\$/thousand cubic feet @ Henry Hub	3.90	3.00 – 3.50	2.45 – 2.55
Exchange rate: Cdn\$:U.S.\$	0.67	0.69 – 0.71	0.68 – 0.70

Note: The foregoing are planning assumptions and are not estimates or predictions of actual future events or circumstances.

Operating Commitments

Throughout Suncor's more than 30-year involvement in its Oil Sands operations in northern Alberta, it has had to invest in assets and related services that in more developed geographic areas would be provided by third parties. These include assets such as crude oil and natural gas pipelines, electrical and steam generation facilities and accommodation for contract workers.

Suncor believes organizations with the specific expertise associated with such assets can provide more cost-effective services. As part of the Oil Sands growth initiatives, the Company will look to exit such businesses and obtain services from third parties whenever feasible. One example is Suncor's long-term agreement with TransAlta Energy Corporation to have that company build, own and operate

a co-generation facility at Oil Sands with a portion of its output to help meet Suncor's long-term electricity and steam needs. While these existing arrangements, and any new arrangements, will continue to result in long-term operating commitments, the Company believes this approach has the potential to reduce operating and administrative expenses.

Dividends

During 2000, Suncor's quarterly common share dividend was \$0.085 per share, unchanged from 1999 (after taking into consideration the two-for-one share split in the second quarter of 2000). Dividend levels are reviewed quarterly in light of Suncor's growth-related initiatives, financial position, financing requirements, cash flow and other factors considered relevant by the Board of Directors.

Capital and Exploration Investing Expenditures

(\$ millions)	2001 Plan	2000 Actual	1999 Actual
Oil Sands (excluding Project Millennium)			
Sustaining capital	107	6	28
Environmental	8	1	1
Heavy oil – Firebag In-situ Oil Sands Project	124	33	40
Strategic			
Production improvements	60	132	203
Expansion			6
Steepbank	0	5	13
Total	299	177	291
Project Millennium	450	1 631	806
Natural Gas			
Exploration	11	42	75
Development	60	65	75
Environmental	1	1	1
Subtotal finding and development capital	72	108	151
Coal bed methane	10	4	2
Other	18	15	7
Total	100	127	160
Sunoco			
Refining and distribution	34	20	18
Retail marketing	24	21	19
Environmental	12	3	3
Other	3	1	2
Total	73	45	42
Corporate			
Stuart Oil Shale Project	—	18	51
Other	—	—	—
Alternative and renewable energy	13	—	—
Grand Total	935	1 998	1 350

Management's Statement on Financial Reporting

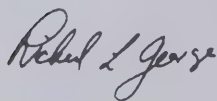
The financial statements on pages 56 to 77 which consolidate the financial results of Suncor Energy Inc., its subsidiaries and joint ventures, and all information in this annual report, are the responsibility of management.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They include some amounts which are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

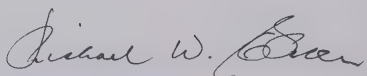
In management's opinion the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized on pages 56 to 58. In meeting its responsibilities for the integrity of the financial statements, management maintains a system of internal controls and an internal audit program. Management also administers a program of proper business conduct compliance.

PricewaterhouseCoopers LLP, the company's independent auditors, have audited the accompanying financial statements. Their report accompanies this statement.

The Audit Committee of the Board of Directors, composed of six independent directors, meets regularly with management, the internal auditors and PricewaterhouseCoopers LLP to review their activities and to discuss auditing, management information systems, internal control, accounting policy and financial reporting matters. The Audit Committee also meets quarterly to review interim financial statements prior to their release. The internal auditors and PricewaterhouseCoopers LLP have unrestricted access to the Company, the Audit Committee and the Board of Directors. The Audit Committee reviews the financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.



Richard L. George
President and
Chief Executive Officer
January 18, 2001



Michael W. O'Brien
Executive Vice President
and Chief Financial Officer

Auditors' Report

To the Shareholders of Suncor Energy Inc:

We have audited the consolidated balance sheets of Suncor Energy Inc. as at December 31, 2000, 1999 and 1998 and the consolidated statements of earnings, cash flows and changes in shareholders' equity for each of the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000, 1999 and 1998 and the results of its operations and cash flows for each of the years then ended in accordance with accounting principles generally accepted in Canada.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

January 18, 2001

Summary of Significant Accounting Policies

Suncor Energy Inc. is an integrated Canadian energy company, whose three operating segments are Oil Sands, Natural Gas and Sunoco.

Oil Sands includes the production of light sweet and light sour crude oil, diesel fuel and various custom blends from oil sands mined in the Athabasca region of northeastern Alberta, and the marketing of these products in Canada and the United States.

Natural Gas includes the exploration, acquisition, development, production and transportation of natural gas and crude oil in Canada and the marketing of natural gas and crude oil in Canada and the United States.

Sunoco includes the manufacture, transportation and marketing of petroleum and petrochemical products, primarily in Ontario and Quebec, and the marketing of natural gas in Ontario. Petrochemical products are also sold in the United States and Europe.

The company's oil shale project in Queensland, Australia, is currently being treated as a Corporate project for segmented reporting purposes.

The significant accounting policies of the company are summarized below:

(a) Principles of consolidation and the preparation of financial statements

These consolidated financial statements are prepared and reported in Canadian dollars in accordance with Canadian generally accepted accounting principles (GAAP), which differ in some respects from GAAP in the United States. The significant differences in GAAP, as applicable to these consolidated financial statements and notes, are described in the company's Form 40-F report, which is filed with the United States Securities and Exchange Commission and is available on request.

The consolidated financial statements include the accounts of Suncor Energy Inc. and its subsidiaries and the company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint ventures.

The timely preparation of financial statements requires that management make estimates and assumptions, and use judgment, regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

(b) Cash equivalents and investments

The company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents consist primarily of term deposits and certificates of deposit. Investments with maturities from greater than three months to one year are

classified as short-term investments, while those with maturities in excess of one year are classified as long-term investments. Cash equivalents and short-term investments are stated at cost, which approximates market value.

(c) Revenues

The company deems production from its oil sands plant, excluding diesel sales and synthetic crude oil sales under long-term agreements, as well as its conventional crude oil production to be used first for internal refinery consumption. The company also deems a portion of its natural gas production to be sold to Sunoco for resale to its natural gas customers. Therefore, on consolidation, revenues from these deemed sales are eliminated from sales and other operating revenues and purchases of crude oil and products.

The company also uses a portion of its natural gas production for internal consumption at its oil sands plant and refinery. On consolidation, revenues from these sales are eliminated from sales and other operating revenues and operating, selling and general expenses.

Revenues associated with sales of crude oil, natural gas, petroleum and petrochemical products and all other items not eliminated on consolidation are recorded when title passes to the customer. Revenues from natural gas production from properties in which the company has an interest with other producers are recognized on the basis of the company's net working interest.

(d) Capital assets

Cost

Capital assets are recorded at cost.

The company follows the successful efforts method of accounting for its crude oil and natural gas operations. Under the successful efforts method, acquisition costs of proved and unproved properties are capitalized. Costs of unproved properties are transferred to proved properties when proved reserves are confirmed. Exploration costs, including geological and geophysical costs, are expensed as incurred. Exploratory drilling costs are capitalized initially. If it is determined that the well does not contain proved reserves, the capitalized exploratory drilling costs are charged to expense, as dry hole costs, at that time. The related land costs are expensed through the amortization of unproved properties as covered under the Natural Gas section of the following policy.

Development costs, which include the costs of wellhead equipment, development drilling costs, gas plants and handling facilities, applicable geological and geophysical costs and the costs of acquiring or constructing support facilities and equipment are capitalized. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface are expensed as operating costs.

Interest capitalization

Interest costs relating to major capital projects and to the portion of non-producing oil and gas properties expected to become producing are capitalized as part of the cost of such capital assets. Capitalization of interest ceases when the capital asset is substantially complete and ready for productive use.

Leases

Leases entered into by the company as lessee that transfer substantially all the benefits and risks of ownership to the lessee are recorded as capital leases and classified as capital assets and long-term borrowings. All other leases are classified as operating leases under which leasing costs are expenses in the period in which they are incurred.

Gains and losses on the sale and leaseback of assets recorded as capital leases are deferred and amortized to earnings in proportion to the amortization of leased assets.

Depreciation, depletion and amortization

Oil Sands:

Capital assets are depreciated over their useful lives on a straight-line basis, except for original lease acquisition costs and related mine assets, which are depreciated over the life of proved reserves on a unit of production basis.

The company is depreciating capital assets as follows:

- (i) mobile equipment over three to 20 years;
- (ii) mine equipment and acquisition costs of original leases #86 and #17 over approximately 17 million barrels of proved reserves;
- (iii) plant and other capital assets, including new leases, primarily over 10 to 40 years.

Natural Gas:

Unproved properties whose acquisition costs are individually significant are evaluated for impairment by management. Impairment of unproved properties whose acquisition costs are not individually significant is provided for through amortization of the portion not expected to become producing, based on historical experience, over the average projected holding period.

Acquisition costs of proved properties are depleted using the unit of production method based on proved reserves. Capitalized exploratory drilling costs and development costs are depleted on the basis of proved developed reserves. For purposes of the depletion calculation, production and reserves volumes for oil and natural gas are converted to a common unit of measure on the basis of their approximate relative energy content. Gas plants, support facilities and equipment are depreciated on a straight-line basis over their useful lives, which average 12 years.

Sunoco:

Depreciation of capital assets is on a straight-line basis over their useful lives. The refinery and additions thereto are depreciated over an average of 30 years, service stations and related equipment over an average of 20 years and other facilities and equipment over three to 25 years.

Reclamation and environmental remediation costs

Reclamation and environmental remediation costs for identified sites are estimated and charged against earnings when there exists a regulatory or statutory requirement or contractual agreement, or when management has made a decision to decommission or restore a site, providing that assessments indicate that such costs are probable and reasonably estimable.

Estimated reclamation costs in the company's upstream operations are accrued on the unit of production basis. Estimated environmental remediation costs, which are predominantly in the company's downstream operation, are accrued for those sites where assessments indicate that such work is required.

Costs are accrued based upon currently known information, estimated timing of remedial actions, and existing regulatory requirements and technology. Changes in these factors may result in material changes to estimated costs, which will be recognized prospectively when known.

Impairment

Capital assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount, less related provisions for reclamation and environmental remediation costs and future income taxes, may not be recoverable from estimated future cash flows. If it is determined that the estimated net recoverable amount is less than the net carrying amount, then a write-down to the estimated net recoverable amount is made, with a charge to earnings.

Disposals

Gains or losses on disposals of capital assets are generally recognized in earnings. For oil and gas capital assets, gains or losses are recognized in earnings for significant disposals or disposal of an entire property. However, the acquisition cost of an unproved property surrendered or abandoned which is not individually significant or a partial abandonment of a proved property is charged to accumulated depreciation, depletion or amortization, as appropriate.

(e) Deferred charges

Overburden removal costs incurred to expose oil sands and oil shale for mining, including depreciation on overburden removal equipment where applicable, are deferred. These costs are amortized based on the amount of oil sands and oil shale mined in the year, the ratio of total overburden to be removed to total reserves of oil sands and oil shale to be mined and the removal cost, determined on a last-in, first-out (LIFO) basis, per unit of overburden.

The cost of major maintenance shutdowns is deferred and amortized on a straight-line basis over the period to the next shutdown which varies from two to seven years. Normal maintenance and repair costs are charged to expense as incurred.

Oil sands preproduction costs are amortized on a unit of production basis over the life of proved producing reserves.

(f) Employee future benefits

The company has employee future benefit programs as follows:

- a defined benefit pension plan and a defined contribution pension plan providing retirement benefits for its eligible employees, and supplementary defined benefit pension plans providing additional retirement benefits for its executives
- other post-retirement benefits, including certain health care and life insurance benefits, for its retired employees and eligible surviving dependants
- post-employment benefits providing certain benefits to former or inactive employees and eligible surviving dependants, after employment but before retirement under specified circumstances.

The estimated future cost of providing defined benefit pension and other post-retirement benefits is actuarially determined using management's best estimates of demographic and financial assumptions, and such cost is accrued ratably from the date of hire of the employee to the date the employee becomes fully eligible to receive the benefits. The discount rate used to determine accrued benefit obligations is a market rate of interest. Company contributions to the defined contribution plan are expensed as incurred.

(g) Inventories

Inventories of crude oil and refined products are valued at the lower of cost using the last-in, first-out (LIFO) method and net realizable value.

Materials and supplies are valued at the lower of average cost and net realizable value.

(h) Derivative financial instruments

The company periodically enters into derivative financial instrument contracts such as forwards, futures, swaps and options to hedge against the potential adverse impact of market prices for its petroleum and natural gas products and to protect its Canadian dollar income and cash flows against adverse foreign currency exchange movements. The company also periodically enters into derivative financial instrument contracts such as interest rate swaps as part of its risk management strategy to minimize exposure to interest rate fluctuations. The company does not use derivative financial instruments involving multipliers or leverage.

These derivative contracts are initiated within the guidelines of the company's risk management policies, which require stringent authorities for approval and commitment of contracts, designation of the contracts by management as hedges of the related transactions, and monitoring of the effectiveness of such contracts in reducing the related risks. Contract maturities are consistent with the settlement dates of the related hedged transactions.

Derivative contracts accounted for as hedges are not recognized in the consolidated balance sheets. Gains or losses on these contracts are recognized in earnings and cash flows when the related sales revenues, costs, interest expense and cash flows are recognized.

Gains or losses resulting from changes in the fair value of derivative contracts that do not qualify for hedge accounting are recognized in earnings and cash flows when those changes occur.

(i) Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated to Canadian dollars at rates of exchange in effect at the end of the period. Other assets and related depreciation, depletion and amortization, other liabilities, revenues and expenses are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains and losses are included in earnings, except for unrealized exchange gains and losses arising on translation of long-term liabilities with fixed or ascertainable lives. These gains and losses are deferred and amortized over the remaining terms of the liabilities.

The company's oil shale project in Australia is integrated with the company's other activities and is translated in the manner described above.

(j) Stock-based compensation plans

Under the company's share option programs, common share options are granted to executives, certain employees and non-employee directors. The company does not recognize compensation expense on the issuance of common share options under these programs because the exercise price of the share options is equal to the market value of the common shares at the date of grant.

The company also has long-term employee incentive plans which provide awards to certain executives based on the market price of the company's common shares and to all other employees based on the market price of the company's common shares and the achievement of certain performance measurement criteria relating to the company's business segments. These awards vest on April 1, 2002 and are payable at that time, generally in equal amounts of cash and common shares of the company. The estimated costs of the cash portion of these awards, based on share price and expected performance achievement, are recorded as compensation expense over the vesting period.

Under the company's directors' compensation plan, non-employee directors of the company may elect to receive half or all of their annual remuneration as directors in common share equivalents. The estimated costs of directors' compensation in the form of these common share equivalents, based on share price, are recorded as compensation expense annually.

Consolidated Statements of Earnings

for the years ended December 31

(\$ millions)	2000	1999	1998
REVENUES			
Sales and other operating revenues (notes 5 and 7)	3 385	2 383	2 068
Interest	3	4	2
	3 388	2 387	2 070
EXPENSES			
Purchases of crude oil and products	807	519	366
Operating, selling and general (note 13)	918	774	698
Exploration (note 5)	53	40	40
Royalties (note 4)	199	99	78
Taxes other than income taxes (note 5)	361	334	325
Depreciation, depletion and amortization	365	318	264
Gain on disposal of assets	(148)	(34)	(6)
Write-down of oil shale assets (note 2)	125	—	—
Restructuring (note 3)	65	—	—
Start-up expenses – Project Millennium (note 9)	15	—	—
Interest (note 5)	8	26	24
	2 768	2 076	1 789
EARNINGS BEFORE INCOME TAXES	620	311	281
PROVISION FOR INCOME TAXES (note 6)			
Current			
Income taxes on earnings	45	29	(3)
Income tax refund	—	—	(16)
	45	29	(19)
Future			
Income taxes on earnings	198	96	117
Income tax refund	—	—	5
	198	96	122
	243	125	103
NET EARNINGS	377	186	178
Dividends on preferred securities (note 16)	(26)	(22)	—
Net earnings attributable to common shareholders	351	164	178
PER COMMON SHARE (dollars) (note 17)			
Net earnings attributable to common shareholders	1.58 1.57	0.74 0.73	0.81 0.80
			
Cash dividends	0.34	0.34	0.34

See accompanying summary of accounting policies and notes.

as at December 31

(\$ millions)	2000	1999	1998
ASSETS			
Current assets			
Cash and cash equivalents	21	5	26
Accounts receivable (notes 5 and 7)	407	277	190
Current income taxes	—	—	10
Future income taxes (note 6)	45	14	—
Inventories (note 8)	192	161	175
Total current assets	665	457	401
Capital assets, net (note 9)	5 883	4 528	3 504
Deferred charges and other (note 10)	166	191	199
Future income taxes (note 6)	119	—	—
Total assets	6 833	5 176	4 104
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	64	32	16
Accounts payable	424	277	125
Accrued liabilities (notes 13 and 14)	285	339	169
Income taxes payable	15	15	—
Future income taxes (note 6)	9	—	—
Taxes other than income taxes	39	46	59
Current portion of long-term borrowings (note 11)	1	1	1
Total current liabilities	837	710	370
Long-term borrowings (notes 11 and 12)	2 192	1 306	1 298
Accrued liabilities and other (notes 13 and 14)	252	236	194
Future income taxes (note 6)	1 080	816	743
Commitments and contingencies (note 15)			
Shareholders' equity			
Preferred securities (note 16)	514	514	—
Share capital (note 17)	537	524	518
Retained earnings	1 421	1 070	981
Total shareholders' equity	2 472	2 108	1 499
Total liabilities and shareholders' equity	6 833	5 176	4 104

See accompanying summary of accounting policies and notes.

Approved on behalf of the Board:



R.L. George, Director



R.W. Korthals, Director

Consolidated Statements of Cash Flows

for the years ended December 31

(\$ millions)		1999	1998
OPERATING ACTIVITIES			
Cash flow provided from operations (1), (2)	958	591	580
Decrease (increase) in operating working capital			
Accounts receivable (note 5)	(130)	(101)	77
Inventories	(31)	14	(16)
Accounts payable and accrued liabilities	93	322	(114)
Taxes payable	18	12	(14)
Cash provided from operating activities	908	838	513
CASH USED IN INVESTING ACTIVITIES (2)	(1 607)	(1 290)	(937)
NET CASH DEFICIENCY BEFORE FINANCING ACTIVITIES	(699)	(452)	(424)
FINANCING ACTIVITIES			
Increase (decrease) in short-term borrowings	32	16	(20)
Issuance of preferred securities (note 16)	—	507	—
Stuart Oil Shale Project borrowings	—	11	49
Repayment of commercial paper borrowings (note 16)	—	(507)	—
Repayment of 12% debentures, Series A	—	—	(55)
Net increase in other long-term borrowings	792	510	533
Issuance of common shares under stock option plan (note 17)	9	6	5
Dividends paid on preferred securities (3) (note 16)	(47)	(37)	—
Dividends paid on common shares	(71)	(75)	(75)
Cash provided from financing activities	715	431	437
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16	(21)	13
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5	26	13
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	5	26
PER COMMON SHARE (dollars) (note 17)			
(1) Cash flow provided from operations	4.32	2.68	2.64
(3) Dividends paid on preferred securities (pre-tax)	0.21	0.17	—
Cash flow provided from operations after deducting dividends paid on preferred securities	4.11	2.51	2.64
(2) See Schedules of Segmented Data on pages 64 and 65			

See accompanying summary of accounting policies and notes.

Consolidated Statement of Shareholders' Equity

(\$ millions)	Preferred Securities	Share Capital	Retained Earnings
At December 31, 1997	—	513	878
Net earnings	—	—	178
Dividends paid on common shares	—	—	(75)
Issued for cash under stock option plan	—	4	—
Issued under dividend reinvestment plan	—	1	—
At December 31, 1998	—	518	981
Net earnings	—	—	186
Dividends paid on preferred securities	—	—	(22)
Dividends paid on common shares	—	—	(75)
Issuance of preferred securities (note 16)	514	—	—
Issued for cash under stock option plan	—	6	—
At December 31, 1999	514	524	1 070
Net earnings	—	—	377
Dividends paid on preferred securities	—	—	(26)
Dividends paid on common shares	—	—	(71)
Issued for cash under stock option plan	—	9	—
Issued under dividend reinvestment plan	—	4	(4)
Income taxes – impact of new standard (note 1)	—	—	75
At December 31, 2000	514	537	1 421

See accompanying summary of accounting policies and notes.

Statement of Operations

for the years ended December 31

	Oil Sands			Natural Gas			Sunoco		
(\$ millions)	1999	1998	2000	1999	1998	2000	1999	1998	
EARNINGS									
Revenues**									
Sales and other operating revenues	544	461	421	237	143	114	2 604	1 779	1 533
Intersegment revenues***	792	428	347	191	163	176	—	—	—
Interest	—	—	—	—	—	—	—	—	—
	1 336	889	768	428	306	290	2 604	1 779	1 533
Expenses									
Purchases of crude oil and products	3	6	10	—	—	—	1 783	1 090	845
Operating, selling and general	467	369	341	74	88	86	310	270	263
Exploration	—	—	—	53	40	40	—	—	—
Royalties	98	51	43	101	48	35	—	—	—
Taxes other than income taxes	12	9	7	3	5	5	345	320	313
Depreciation, depletion and amortization	232	177	128	78	87	84	54	53	51
(Gain) loss on disposal of assets	—	2	(1)	(147)	(36)	(5)	(1)	—	—
Write-down of oil shale assets	—	—	—	—	—	—	—	—	—
Restructuring	—	—	—	65	—	—	—	—	—
Start-up expenses – Project Millennium	15	—	—	—	—	—	—	—	—
Interest	—	—	—	—	—	—	—	—	—
	827	614	528	227	232	245	2 491	1 733	1 472
Earnings (loss) before income taxes									
	509	275	240	201	74	45	113	46	61
Income taxes	(194)	(108)	(95)	(103)	(33)	(21)	(32)	(19)	(24)
Net earnings (loss)	315	167	145	98	41	24	81	27	37
As at December 31									
TOTAL ASSETS	5 079	3 178	2 081	762	962	943	911	849	874
CAPITAL EMPLOYED****	1 412	1 352	1 242	412	727	772	386	405	499
RETURN ON AVERAGE CAPITAL EMPLOYED (%)****	22.8	12.9	16.3	17.2	5.5	3.3	20.5	6.0	7.4
RETURN ON AVERAGE CAPITAL EMPLOYED (%)*****	10.6	9.2	11.6	17.2	5.5	3.3	20.5	6.0	7.4

* The company currently has no foreign geographic segments. See note 5 for information on export sales. Accounting policies for segments are the same as those described in the Summary of Significant Accounting Policies.

** Two customers in the Oil Sands segment in 2000 represented 10% or more (\$493 million and \$355 million) of the company's 2000 consolidated revenues (1999 – one customer represented 10% or more (\$281 million); 1998 – none).

*** Intersegment revenues are recorded at prevailing fair market prices and accounted for as if the sales were to third parties.

**** Capital Employed – the total of shareholders' equity and debt (short-term borrowings and current and long-term portions of long-term borrowings), less capitalized costs related to major projects in progress. Long-term borrowings are recorded mainly in the Corporate segment.

***** If capital employed were to include capitalized costs related to major projects in progress, the return on average capital employed would be as stated on this line.

See accompanying summary of accounting policies and notes.

	Corporate and eliminations			Total		
(\$ millions)	2000	1999	1998	2000	1999	1998
EARNINGS						
Revenues**						
Sales and other operating revenues	—	—	—	3 385	2 383	2 068
Intersegment revenues***	(983)	(591)	(523)	—	—	—
Interest	3	4	2	3	4	2
	(980)	(587)	(521)	3 388	2 387	2 070
Expenses						
Purchases of crude oil and products	(979)	(577)	(489)	807	519	366
Operating, selling and general	67	47	8	918	774	698
Exploration	—	—	—	53	40	40
Royalties	—	—	—	199	99	78
Taxes other than income taxes	1	—	—	361	334	325
Depreciation, depletion and amortization	1	1	1	365	318	264
(Gain) loss on disposal of assets	—	—	—	(148)	(34)	(6)
Write-down of oil shale assets	125	—	—	125	—	—
Restructuring	—	—	—	65	—	—
Start-up expenses – Project Millennium	—	—	—	15	—	—
Interest	8	26	24	8	26	24
	(777)	(503)	(456)	2 768	2 076	1 789
Earnings (loss) before income taxes	(203)	(84)	(65)	620	311	281
Income taxes	86	35	37	(243)	(125)	(103)
Net earnings (loss)	(117)	(49)	(28)	377	186	178
As at December 31						
TOTAL ASSETS	81	187	206	6 833	5 176	4 104
CAPITAL EMPLOYED****	22	(121)	(72)	2 232	2 363	2 441
RETURN ON AVERAGE CAPITAL EMPLOYED (%)****				16.6	8.3	9.5
RETURN ON AVERAGE CAPITAL EMPLOYED (%)*****	—	—	—	9.3	6.4	7.6

for the years ended December 31

	Oil Sands			Natural Gas			Sunoco		
(\$ millions)	1999	1998		1999	1998		1999	1998	
CASH FLOW BEFORE FINANCING ACTIVITIES									
Cash provided from (used in) operating activities:									
Cash flow provided from (used in) operations									
Net earnings (loss)	315	167	145	98	41	24	81	27	37
Exploration expenses									
Cash	—	—	—	12	12	16	—	—	—
Dry hole costs	—	—	—	41	28	24	—	—	—
Non-cash items included in earnings									
Depreciation, depletion and amortization	232	177	128	78	87	84	54	53	51
Future income taxes	189	102	76	101	31	14	(16)	(33)	13
Current income tax provision allocated to Corporate	5	6	19	2	2	7	48	52	11
(Gain) loss on disposal of assets	—	2	(1)	(147)	(36)	(5)	(1)	—	—
Write-down of oil shale assets	—	—	—	—	—	—	—	—	—
Restructuring	—	—	—	56	—	—	—	—	—
Other	(12)	—	(4)	(4)	6	3	6	3	1
Overburden removal outlays	(48)	(53)	(46)	—	—	—	—	—	—
Overburden removal outlays – Project Millennium	(27)	—	—	—	—	—	—	—	—
Increase (decrease) in deferred credits and other	1	4	3	1	1	—	2	1	(1)
Total cash flow provided from (used in) operations	655	405	320	238	172	167	174	103	112
Decrease (increase) in operating working capital	(169)	83	(8)	27	27	(13)	40	69	7
Total cash provided from (used in) operating activities	486	488	312	265	199	154	214	172	119
Cash provided from (used in) investing activities:									
Capital and exploration expenditures	(1 808)	(1 057)	(507)	(127)	(200)	(242)	(45)	(42)	(60)
Deferred maintenance shutdown expenditures	(3)	(22)	(7)	(1)	—	(1)	(9)	—	(2)
Deferred outlays and other investments	(5)	(7)	(1)	—	—	1	(7)	(2)	(3)
Proceeds from disposals	101	1	1	314	90	9	2	1	1
Total cash provided from (used in) investing activities	(1 715)	(1 085)	(514)	186	(110)	(233)	(59)	(43)	(64)
Net cash surplus (deficiency) before financing activities	(1 229)	(597)	(202)	451	89	(79)	155	129	55

* The company currently has no foreign geographic segments. See note 5 for information on export sales. Accounting policies for segments are the same as those described in the Summary of Significant Accounting Policies.

See accompanying summary of accounting policies and notes.

(\$ millions)	Corporate and eliminations			Total		
	1999	1998		1999	1998	
CASH FLOW BEFORE FINANCING ACTIVITIES						
Cash provided from (used in) operating activities:						
Cash flow provided from (used in) operations						
Net earnings (loss)	(117)	(49)	(28)	377	186	178
Exploration expenses						
Cash	—	—	—	12	12	16
Dry hole costs	—	—	—	41	28	24
Non-cash items included in earnings						
Depreciation, depletion and amortization	1	1	1	365	318	264
Future income taxes	(76)	(4)	19	198	96	122
Current income tax provision allocated to Corporate	(55)	(60)	(37)	—	—	—
(Gain) loss on disposal of assets	—	—	—	(148)	(34)	(6)
Write-down of oil shale assets	125	—	—	125	—	—
Restructuring	—	—	—	56	—	—
Other	(7)	4	3	(17)	13	3
Overburden removal outlays	—	—	—	(48)	(53)	(46)
Overburden removal outlays – Project Millennium	—	—	—	(27)	—	—
Increase (decrease) in deferred credits and other	20	19	23	24	25	25
Total cash flow provided from (used in) operations	(109)	(89)	(19)	958	591	580
Decrease (increase) in operating working capital	52	68	(53)	(50)	247	(67)
Total cash provided from (used in) operating activities	(57)	(21)	(72)	908	838	513
Cash provided from (used in) investing activities:						
Capital and exploration expenditures	(18)	(51)	(127)	(1 998)	(1 350)	(936)
Deferred maintenance shutdown expenditures	—	—	—	(13)	(22)	(10)
Deferred outlays and other investments	(1)	(1)	1	(13)	(10)	(2)
Proceeds from disposals	—	—	—	417	92	11
Total cash provided from (used in) investing activities	(19)	(52)	(126)	(1 607)	(1 290)	(937)
Net cash surplus (deficiency) before financing activities	(76)	(73)	(198)	(699)	(452)	(424)

Notes to the Consolidated Financial Statements

2.1. ACCOUNTING RECOMMENDATIONS

Effective January 1, 2000, the company adopted new recommendations issued by the Accounting Standards Board of the Canadian Institute of Chartered Accountants with respect to accounting for the costs of employee future benefits; accounting for income taxes; and, the computation, presentation and disclosure of earnings per share.

Employee Future Benefits

The new recommendations on accounting for the costs of employee future benefits, which will not affect the company's cash flows or liquidity, have been adopted retroactively and financial statements of all prior periods presented for comparative purposes have been restated to give effect to them. Accordingly, at January 1, 2000, retained earnings were decreased by \$34 million, accrued liabilities and other were increased by \$57 million and future income taxes were decreased by \$23 million.

The impact of the new recommendations for the year ended December 31, 2000 was to increase operating, selling and general expenses by \$14 million (1999 – \$24 million; 1998 – \$16 million) and decrease net earnings by \$8 million (1999 – \$14 million; 1998 – \$10 million).

The new recommendations on accounting for income taxes, which will not affect the company's cash flows or liquidity, have been adopted retroactively as an adjustment to opening retained earnings to reflect the cumulative effect of the change on prior periods. The financial statements of prior periods presented for comparative purposes have not been restated. Accordingly, at January 1, 2000, retained earnings were increased and future income taxes were decreased by \$75 million.

The impact of the new recommendations for the year ended December 31, 2000 was to increase net earnings by \$23 million.

The new recommendations on earnings per share, which bring Canadian accounting requirements in line with U.S. and international standards, require use of the treasury stock method to determine the dilutive effect of warrants, options and equivalents. Previously, the company used the current imputed earnings approach to determine the dilutive effect.

The new recommendations have been adopted retroactively and earnings per share figures of all prior periods presented for comparative purposes have been restated to give effect to them.

This change in accounting policy had no effect on basic earnings per share and no material effect on diluted earnings per share for the years ended December 31, 2000, 1999 and 1998.

2. OIL SHALE PROJECT

In the third quarter of 2000, the company reviewed the carrying value of the company's costs associated with the Stuart Oil Shale Project as a result of operational issues, increased costs and delayed oil production. Based upon management's current operating assumptions and best estimates of the most probable set of economic conditions associated with the development of the project, the carrying value of the assets exceeded the net future cash flows from the project. As a result, the company recorded a write-down of the carrying value of the project of \$125 million. The impact of this write-down was to decrease net earnings by \$80 million.

As at December 31, 2000, the company's records included the following significant amounts related to the oil shale project:

Net capital assets of \$134 million, after the above write-down.

Investments in partly paid Restricted Class Shares of the Australian joint venture participants in the Stuart Oil Shale Project, Central Pacific Minerals NL (CPM) and Southern Pacific Petroleum NL (SPP), totalling \$4 million. These shares convey to the company a right, but not an obligation, to fully pay for additional Restricted Class Shares of CPM and SPP, respectively, for an additional investment of approximately \$57 million. Ownership of these shares would represent approximately a 14% interest in CPM and SPP as at December 31, 2000. The Restricted Class Shares would automatically convert to an equal number of common shares in June 2004, or earlier in certain circumstances. The market value of these common shares at December 31, 2000, based on quoted market prices, was approximately \$144 million (1999 – \$222 million; 1998 – \$157 million). It is uncertain, however, whether the quoted market price would be fully realized upon any future sale of these shares.

Long-term borrowings of \$73 million and accrued interest of \$16 million. Principal and interest repayable from project net cash flows.

The success of the Stuart Oil Shale Project is subject to uncertainty. If the project is unsuccessful, the above amounts would be eliminated. The impact on future earnings, should this occur, is currently estimated to not be significant.

3. RESTRUCTURING CHARGE

In 2000, the carrying value of certain assets of the company's Natural Gas business were written down to their net estimated recoverable amount and a provision for estimated restructuring costs was recorded, as follows:

(\$ millions)	
Non-cash charges:	
Impairment of non-core proved properties	21
Impairment of non-core unproved properties	18
Write-down of capitalized development costs on proved properties	17
Cash charges:	
Employee terminations	6
Consultants and other	3
	65

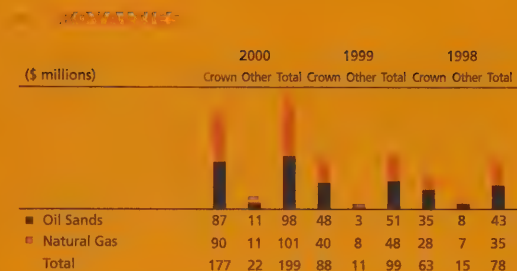
The impact of these charges is to decrease net earnings by \$30 million. At December 31, 2000, current liabilities include \$2 million related to termination and other costs to be paid in 2001.

5. SUPPLEMENTAL INFORMATION

(\$ millions)	2000	1999	1998
Export sales (1)	478	233	231
Exploration expenses			
Geological and geophysical	10	10	14
Other	2	2	2
Cash costs	12	12	16
Dry hole costs	41	28	24
Cash and dry hole costs (2)	53	40	40
Leasehold impairment (3)	10	12	10
	63	52	50
Taxes other than income taxes			
Excise taxes (4)	336	311	305
Production, property and other taxes	25	23	20
	361	334	325
Interest expense			
Long-term interest cost	112	71	67
Less interest capitalized	(104)	(45)	(43)
	8	26	24
Cash interest payments	104	63	64
Allowance for doubtful accounts	3	3	3

In 2000, the company had in place a securitization program to sell, on an ongoing basis, up to \$122 million of accounts receivable (1999 – \$83 million) on a limited recourse basis, to a third party. As at December 31, 2000, \$122 million (1999 – \$83 million) in accounts receivable had been sold under the program. On December 31, 1998, the company sold, on a limited recourse basis, approximately \$50 million in accounts receivable to third parties. The company believes it has no significant exposure to credit loss under the recourse provisions.

- (1) Sales of crude oil, natural gas and refined products to customers in the United States and petrochemicals in Europe.
- (2) Exploration expenses in the Consolidated Statements of Earnings.
- (3) Included in depreciation, depletion and amortization in the Consolidated Statements of Earnings.
- (4) Excise taxes are also included in sales and other operating revenues in the Consolidated Statements of Earnings.



Alberta Crown royalties totalling \$8 million (1999 – \$7 million; 1998 – \$5 million) were paid in kind, and are not shown in the company's revenues and expenses.

6. INCOME TAXES

The assets and liabilities shown on Suncor's balance sheets are calculated using accounting rules known as generally accepted accounting principles. Suncor's income taxes are calculated according to government tax laws and regulations, which could result in different values for some assets and liabilities for income tax purposes. These differences are known as **temporary differences**, because eventually these differences will reverse.

The amount shown on the balance sheets as **future income taxes** represents non-discounted income taxes that will eventually be payable or recoverable in future years when these temporary differences do reverse.

See below for more technical details and numbers.

The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate. A reconciliation of the two rates and the dollar effect is as follows:

(\$ millions)	1999		1999		1998	
	Amount	%	Amount	%	Amount	%
Federal tax rate	236	38	118	38	107	38
Provincial abatement	(62)	(10)	(31)	(10)	(28)	(10)
Federal surtax	7	1	3	1	3	1
Provincial tax rates	96	16	48	16	46	16
Statutory tax and rate	277	45	138	45	128	45
Add (deduct) the tax effect of:						
Crown royalties (see note 4)	83	13	44	13	31	11
Resource allowance	(101)	(17)	(56)	(17)	(49)	(16)
Large corporations tax	10	2	10	3	9	3
Income tax refund*	—	—	—	—	(11)	(4)
Tax rate changes on future income taxes	(13)	(2)	—	—	—	—
Attributed Canadian royalty income	(13)	(2)	—	—	—	—
Other	—	—	(11)	(4)	(5)	(2)
Income taxes and effective rate	243	39	125	40	103	37

2000 income tax payments totalled \$22 million (1999 – payments of \$5 million; 1998 – net refund of \$19 million).

* During 1998, settlements were reached with Canada Customs and Revenue Agency (formerly Revenue Canada) on a number of taxation issues resulting in refunds totalling \$34 million, \$11 million of which were reflected in 1997 net earnings (\$0.05 per common share). The impact of the refund in 1998 is to increase net earnings by \$11 million (\$0.05 per common share) reflecting a reduction of prior years income taxes of \$5 million and taxable interest of \$6 million (after a provision for income taxes of \$5 million).

At December 31, 2000, future income taxes are comprised of the following:

(\$ millions)	Current	Non-current
Future income tax assets:		
Employee future benefits	2	39
Reclamation and environmental remediation costs	9	23
Royalties	—	43
Employee incentive plans	—	10
Inventories	20	—
Other	14	4
	45	119
Future income tax liabilities:		
Depreciation	—	1 038
Overburden removal costs	—	23
Maintenance shutdown costs	—	12
Other	9	7
	9	1 080

7. RELATED PARTY TRANSACTIONS

The following table summarizes the company's related party transactions for the year and balances at the end of the year. These transactions are in the normal course of operations and have been carried out on the same terms as would apply with unrelated parties.

(\$ millions)	2000	1999	1998
Revenues			
Sales to Sunoco joint ventures:			
Refined products	600	395	309
Petrochemicals	128	108	85
At the end of the year, amounts due from related parties are as follows:			
Sunoco joint ventures	58	45	41

Sales to and balances with Sunoco joint ventures are exchange amounts established and agreed to by the related parties, before application of the proportionate consolidation method of accounting.

The company has exclusive supply agreements with two Sunoco joint ventures for the sale of refined products. One agreement expires in 2002, after which the company will continue to be the exclusive supplier of refined products as long as it remains a shareholder. The company plans to maintain its relationship with this joint venture. The other agreement expires in 2003 and will be automatically renewed thereafter for one-year terms until terminated upon twelve months' prior written notice. No notice has been given by either party.

The company also has a non-exclusive supply agreement with a Sunoco joint venture for the sale of petrochemicals. The agreement is automatically renewed on an annual basis until it is terminated by either party upon twelve months' written notice. No notice has been given by either party.

9. CAPITAL ASSETS

(\$ millions)			1999		1998	
			Cost	Accum. Provision	Cost	Accum. Provision
Oil Sands						
Plant	1 814	496	1 770	487	1 548	449
Mine and mobile equipment	918	313	850	243	828	191
Capitalized energy services asset lease	101	2	—	—	—	—
Capitalized aircraft lease	8	—	—	—	—	—
Project Millennium*						
— in-service	102	6	—	—	—	—
— in-progress	2 434	—	905	—	99	—
	5 377	817	3 525	730	2 475	640
Natural Gas						
Proved properties (note 3)	877	366	1 190	487	1 242	506
Unproved properties (note 3)	125	56	344	171	288	169
Pipeline	20	17	22	18	22	18
Other support facilities and equipment	13	6	19	12	18	10
	1 035	445	1 575	688	1 570	703
Sunoco						
Refinery	745	367	740	350	724	327
Marketing and transportation	405	187	380	165	362	148
	1 150	554	1 120	515	1 086	475
Corporate						
Stuart Oil Shale Project (note 2)	134	—	237	—	187	—
Other	6	3	7	3	6	2
	140	3	244	3	193	2
	7 702	1 819	6 464	1 936	5 324	1 820
Net capital assets		5 883		4 528		3 504

Interest capitalized during 2000 totalled \$104 million (1999 – \$45 million; 1998 – \$43 million).

Capitalized costs related to the in-progress phase of Project Millennium and the Stuart Oil Shale Project are not being amortized. Depreciation will begin when the facilities are substantially complete and ready for commercial production to commence.

* Start-up costs incurred in the commissioning of Project Millennium have been expensed.

INVENTORIES				
(\$ millions)	2000	1999	1998	
■ Crude oil	83	47	58	
■ Refined products	55	67	62	
■ Materials and supplies	54	47	55	
Total	192	161	175	

The replacement cost at December 31, 2000, of all inventories valued at LIFO exceeded their carrying value by \$61 million (1999 – \$37 million; 1998 – nil).

In 2000, the company sold inventories produced in prior years whose LIFO costs were lower than current crude oil and operating costs. The impact of this reduction in inventory was to decrease expenses by \$8 million and increase net earnings by \$5 million.

OIL SANDS OVERBURDEN REMOVAL COSTS

(\$ millions)		1999	1998
Oil sands overburden removal costs (see below)	76	85	95
Deferred maintenance shutdown costs	35	45	44
Investments	8	8	8
Other	47	53	52
	166	191	199
Oil sands overburden removal costs			
Balance – beginning of year	85	95	86
Outlays during year	75	53	46
Depreciation on equipment during year	8	6	2
	168	154	134
Amortization during year	(92)	(69)	(39)
Balance – end of year	76	85	95

LONG-TERM BORROWINGS

(\$ millions)	2000	1999	1998
Fixed rate borrowings			
Medium Term Notes, maturing in 2007. Interest payable semi-annually	400	400	400
7.4% Debentures, Series C, maturing in 2004. Interest payable semi-annually*	125	125	125
Borrowings under or with support of lines of credit converted to fixed rate obligations by interest rate swap transactions, maturing in 2003. Interest payable quarterly at rates averaging 5.6%**	110	110	110
Stuart Oil Shale Project borrowings with interest at 7.75% (note 2)	73	82	71
Sunoco joint venture borrowings with interest at rates averaging 7.7% at December 31, 2000 (1999 – 7.6%; 1998 – 7.1%)	4	5	5
	712	722	711
Capital leases***	109	—	—
Less current portion of fixed rate long-term borrowings	1	1	1
	820	721	710
Variable rate borrowings****			
Borrowings with interest at variable rates averaging 6.0% at December 31, 2000 (1999 – 5.2%; 1998 – 5.3%) under or with support of lines of credit	1 372	585	588
Total long-term borrowings	2 192	1 306	1 298

* During 1996, the company entered into a cross-currency interest rate swap transaction to convert its 7.4% Debentures to a 6.2% fixed interest rate U.S. dollar obligation of approximately \$91 million. Later in 1996, the company entered into another cross-currency interest rate swap transaction to convert the U.S. \$91 million obligation back to a fixed rate Canadian \$125 million obligation. Both contracts will remain in place for the term of the debenture. The net effect of the two swap transactions is to reduce the effective interest rate on the debentures from 7.3% (7.4% coupon rate) to 5.5%. The principal obligation remains unchanged.

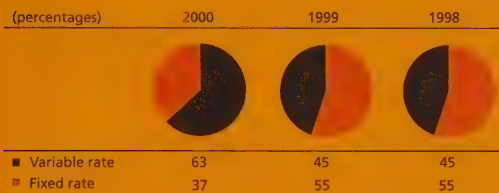
** During 1998, the company entered into interest rate swap transactions to convert \$50 million and \$60 million of variable rate borrowings to fixed interest rate obligations at 5.5% and 5.7%, respectively.

*** Obligations under capital leases are as follows:

	(\$ millions)
Energy services assets lease with interest at 6.82% maturing in 2004	101
Aircraft lease with interest at prime plus 0.5% maturing in 2008	8
	109
Future minimum amounts payable under these capital leases are as follows:	
	(\$ millions)
2001	8
2002	8
2003	8
2004	108
2005	1
Later years	6
Total minimum lease payments	139
Less amount representing imputed interest	(30)
Present value of obligation under capital leases	109

**** During 1999, the company entered into a cross-currency interest rate swap transaction to convert U.S. \$183 million of variable rate borrowings with interest based on 90-day LIBOR to Canadian \$278 million with interest based on 90-day bankers' acceptances.

Long-term borrowings



Principal repayments of long-term borrowings other than obligations under capital leases in each of the next five years are as follows:

	(\$ millions)
2001	1
2002	1
2003	2
2004	1 608
2005	—

12. LINES OF CREDIT

At December 31, 2000, the company had available \$2 411 million in credit and term loan facilities, of which \$917 million had been drawn, as follows:

A facility for \$600 million, which is fully revolving for 364 days, has a term period of three years and expires in 2004.

A facility for \$500 million, which is fully revolving for 364 days and expires in 2001.

A facility for U.S. \$183 million (Cdn \$278 million), which is non-revolving, has been fully drawn and expires in 2004.

A facility for \$1 018 million, which is fully revolving for six years and expires in 2004.

Uncommitted facilities totalling \$15 million, which can be terminated at any time at the option of the lenders.

The company is also authorized, supported by unutilized credit and term loan facilities, to issue commercial paper to a maximum of \$600 million having a term not to exceed 364 days. At December 31, 2000, the company had \$565 million in commercial paper outstanding.

These credit facilities are subject to commitment fees, the amounts of which are not significant.

13. ACCRUED LIABILITIES AND OTHER

(\$ millions)	2000	1999	1998
■ Reclamation & environmental remediation costs (a)	70	86	87
■ Pension costs (see note 14)	95	96	83
■ Other (b)	87	54	24
Total	252	236	194

(a) Reclamation and environmental remediation costs

Total accrued reclamation and environmental remediation costs also include \$27 million in current liabilities (1999 – \$13 million; 1998 – \$14 million). Payments during 2000 totalled \$15 million (1999 – \$13 million; 1998 – \$11 million).

The estimate of remaining reclamation costs for the company's oil sands operation is \$525 million for its current mining operation and its Project Millennium. Factors such as inflation and changes in technology and proved reserves may materially change the cost estimate.

The Natural Gas segment's reclamation and environmental remediation cost estimate decreased in 2000 from \$57 million to \$32 million, reflecting the divestment of properties (see note 3). A total of \$26 million has been accrued to December 31, 2000. The remaining \$6 million will be accrued over future years on a unit of production basis.

(b) Employee and director incentive plans

Compensation expense recorded under the company's long-term employee incentive plans was \$32 million (1999 – \$26 million; 1998 – \$4 million). Compensation expense is an estimated amount, based on the market price of the company's common shares and expected performance achievement, and is therefore subject to measurement uncertainty and volatility.

Compensation expense in the form of common share equivalents under the directors' compensation plan is not significant.

Defined Benefit Pension Plans and Other Post-retirement Benefits

When employees work for Suncor, they are eligible to receive pension, health care and insurance benefits when they retire. This **Benefit Obligation** or commitment that Suncor has to employees and retirees at December 31, 2000 was \$483 million.

As required by government regulations and plan performance, Suncor sets aside funds, which are in the custody of an independent trustee, to meet these obligations. At the end of December 2000, **Plan Assets** to meet the **Benefit Obligation** were \$322 million.

The excess of the **Benefit Obligation** over **Plan Assets** of \$161 million represents the **Net Unfunded Obligation**. See below for the technical details and numbers.

Defined Benefit Pension Plans and Other

Post-retirement Benefits

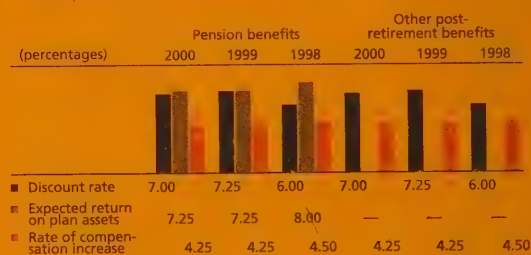
The company's defined benefit pension plans provide a pension benefit at retirement based upon years of service and final average earnings. The defined benefit pension plans consist of a funded plan which covers most employees, and unfunded supplementary benefit plans which provide supplemental retirement benefits to executives. Under the funded plan, the company makes contributions to an independent trustee to cover pension payment obligations to retired employees. The trustee acts as the depository for contributions, the disbursing agent and custodian of the pension plan's assets. These assets are managed by a pension

fund investment committee, on behalf of the beneficiaries, which retains independent managers and advisers.

The company's other post-retirement benefits program, which is unfunded, includes certain health care and life insurance benefits provided to retired employees and eligible surviving dependants. Retirees share in the cost of providing these benefits.

Company contributions to the funded pension plan, the present value of pension and other post-retirement benefit obligations and periodic benefit costs are determined by an independent actuary in accordance with regulatory requirements, based on management's best estimate of actuarial assumptions.

Assumptions and estimates



The following table presents information about the funded status of the plans and obligations recognized in the consolidated balance sheets at December 31:

	Pension benefits			Other post-retirement benefits		
	2000	1999	1998	2000	1999	1998
Change in benefit obligation						
Benefit obligation at beginning of year	364	403	334	69	72	64
Service costs	12	15	11	3	4	2
Interest costs	26	24	23	5	4	5
Plan participants' contribution	3	2	2	—	—	—
Amendments	—	—	—	—	(8)	3
Actuarial (gain) loss	23	(61)	51	4	(1)	—
Benefits paid	(24)	(19)	(18)	(2)	(2)	(2)
Benefit obligation at end of year	404	364	403	79	69	72
Change in plan assets*						
Fair value of plan assets at beginning of year	316	278	250	—	—	—
Actual return on plan assets	15	39	28	—	—	—
Employer contribution	12	16	16	—	—	—
Plan participants' contribution	3	2	2	—	—	—
Benefits paid	(24)	(19)	(18)	—	—	—
Fair value of plan assets at end of year	322	316	278	—	—	—
Net unfunded obligation	(82)	(48)	(125)	(79)	(69)	(72)
Items not yet recognized in earnings:						
Unamortized transitional asset	(8)	(16)	(24)	—	—	—
Unamortized net actuarial loss	45	18	108	13	11	21
Accrued benefit liability*	(45)	(46)	(41)	(66)	(58)	(51)
* Current portion	(15)	(8)	(8)	(2)	(2)	(2)
Long-term portion	(30)	(38)	(33)	(64)	(56)	(49)
	(45)	(46)	(41)	(66)	(58)	(51)

* Assets in the employees' pension plan consist of marketable equity securities, government and corporate bonds and short-term notes. Pension plan assets are not the company's assets and therefore are not included in the consolidated balance sheets.

The above benefit obligation at year-end includes funded and unfunded plans, as follows:

	Pension benefits			Other post-retirement benefits		
	1999	1998		1999	1998	
Funded plan	334	309	332	—	—	—
Unfunded plans	70	55	71	79	69	72
Benefit obligation at end of year	404	364	403	79	69	72

The unamortized asset determined at January 1, 1987, the transition date, is being amortized on a straight-line basis over 15 years to 2001. The unamortized net actuarial loss represents annually calculated differences between actual and projected plan performance. These amounts are amortized as part of the net periodic benefit cost over the expected

average remaining service life of employees of 13 years for pension benefits (1999 and 1998 – 13 years), and over the expected average future service life to full eligibility age of 11 years for post-retirement benefits.

The components of net periodic benefit cost are as follows:

	Pension benefits			Other post-retirement benefits		
	1999	1998		1999	1998	
Service costs	12	15	11	3	4	2
Interest costs	26	24	23	5	4	5
Expected return on plan assets	(22)	(22)	(20)	—	—	—
Amortization of transitional asset	(8)	(8)	(8)	—	—	—
Amortization of net actuarial loss	6	12	9	1	1	1
Net periodic benefit cost	14	21	15	9	9	8

In order to measure the expected cost of other post-retirement benefits, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually each year to a rate of 5% for 2010 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for other post-retirement benefit obligations. A 1% change in assumed health care cost trend rates would have the following effects:

(\$ millions)	1% increase	1% decrease
Effect on total of service and interest cost components of net periodic post-retirement health care benefit cost	2	(1)
Effect on the health care component of the accumulated post-retirement benefit obligation	13	(10)

Defined Contribution Pension Plan

The company has a defined contribution plan, under which both the company and employees make contributions. Company contributions, which totalled \$4 million (1999 – \$4 million; 1998 – \$3 million), are based on employees' earnings and contributions.

OPERATING LEASES AND SUBSIDIARIES

In order to ensure continued availability of, and access to, facilities and services to meet its operational requirements, the company enters into non-cancellable operating leases for service stations, office space and other property and equipment, as well as transportation service agreements for pipeline capacity and an energy services agreement. Under contracts existing at December 31, 2000, future minimum amounts payable under these leases and agreements are as follows:

(\$ millions)	Pipeline capacity and energy services*	Operating leases
2001	101	43
2002	116	25
2003	115	19
2004	115	16
2005	123	15
Later years	3 159	70
	3 729	188

* Includes annual tolls payable under a transportation service agreement with a major pipeline company to use a portion of its pipeline capacity and tankage for the shipment of crude oil from Fort McMurray to Hardisty, Alberta. The agreement commenced in 1999 and extends to 2028. As the initial shipper on the pipeline, Suncor's annual tolls payable under the agreement could be subject to annual adjustments.

A major energy company is in the process of building a cogeneration facility at the oil sands site with expected completion during the first quarter of 2001. Under long-term energy agreements, Suncor has a commitment to obtain a portion of the power and all of the steam generated by this facility to meet the energy needs of its oil sands operation. Effective October 1999, this company also commenced managing the operations of Suncor's existing energy services facility.

OUTSTANDING CAPITAL COMMITMENTS AND CONTINGENCIES

At December 31, 2000, the company had outstanding commitments of \$193 million for capital expenditures on Project Millennium.

The company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated reclamation and environmental remediation costs. These costs are accrued at the company's natural gas and oil sands operations on the unit of production basis. Estimated environmental remediation costs at service stations are also accrued upon completion of site investigations. These costs are reduced by any estimated gains likely to be realized on a sale of these sites. Any changes in these estimates will affect future earnings.

Under the company's business interruption insurance coverage, the company would bear the first \$70 million of any loss arising from a future insured incident at its oil sands operations.

The company is defendant and plaintiff in a number of legal actions that arise in the normal course of business.

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and to be funded mainly from the company's cash provided from operating activities. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year. The company believes that any liabilities that might arise pertaining to such matters would not be expected to have a material effect on the company's consolidated financial position.

PREFERRED SECURITIES

During 1999, the company completed a Canadian offering of \$276 million of 9.05% preferred securities and a U.S. offering of U.S.\$163 million of 9.125% preferred securities, the proceeds of which totalled Canadian \$507 million after issue costs of \$17 million (\$10 million after tax). The preferred securities are unsecured junior subordinated debentures, due in 2048 and redeemable at the company's option on or after March 15, 2004. Subject to certain conditions, the company has the right to defer payment of interest on the securities for up to 20 consecutive quarterly periods. Deferred interest and principal amounts are payable in cash, or, at the option of the

company, from the proceeds on the sale of equity securities of the company delivered to the trustee of the preferred securities. Accordingly, the preferred securities are classified as share capital in the consolidated balance sheet and the interest distributions thereon, net of income taxes, are classified as dividends. Proceeds from the offerings were used to repay commercial paper borrowings.

17. SHARE CAPITAL**(a) Authorized:****Common shares**

The company is authorized to issue an unlimited number of common shares without nominal or par value.

Preferred shares

The company is authorized to issue an unlimited number of preferred shares without nominal or par value in series.

(b) Issued:

The number of common shares and common share options outstanding, common share prices and per share calculations, for both current and prior periods, reflect a two-for-one split of the company's common shares during 2000.

(\$ millions)	Common Shares	
	Number	Amount
Balance as at		
December 31, 1997	219 813 266	513
Issued for cash under stock option plan	594 930	4
Issued under dividend reinvestment plan	25 460	1
Balance as at		
December 31, 1998	220 433 656	518
Issued for cash under stock option plan	587 850	6
Issued under dividend reinvestment plan	10 732	—
Balance as at		
December 31, 1999	221 032 238	524
Issued for cash under stock option plan	738 176	9
Issued under dividend reinvestment plan	130 165	4
Balance as at		
December 31, 2000	221 900 579	537

Common Share Options

(i) Executive Stock Plan

Under this program, the company has granted common share options to non-employee directors and certain executives of the company and its subsidiaries. The exercise price of an option is equal to the market value of the common shares at the date of grant. Options granted to non-employee directors are exercisable immediately. Options granted to employees are exercisable as follows: one-third after one year, the second third after two years and the final third after three years of the grant date. No option may be exercisable more than 10 years after the grant date.

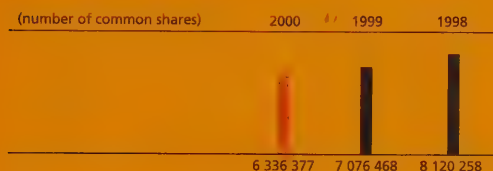
(ii) Employee Stock Option Program

Under this program, the company has granted 1 067 290 share options to certain executives and senior employees. The exercise price for these grants was equal to or greater than the market value of the common shares at the grant date. Options vest and are exercisable on April 1, 2002, one-half at that time and the other half based on achievement of certain performance measurement criteria.

The following tables cover common share options granted by the company:

Exercise price per share			
(dollars)	Number	Range	Weighted Average
Outstanding, December 31, 1997	5 196 582	4.75-26.08	14.27
Granted	893 036	24.55-26.38	24.66
Exercised	(594 978)	4.75-15.69	7.25
Cancelled	(97 402)	10.55-26.08	21.38
Outstanding, December 31, 1998	5 397 238	4.75-26.38	16.64
Granted	1 090 456	20.25-30.18	20.70
Exercised	(583 040)	4.75-24.55	9.76
Cancelled	(46 668)	15.54-26.08	25.73
Outstanding, December 31, 1999	5 857 986	4.75-30.18	18.01
Granted	950 016	26.08-38.55	31.29
Exercised	(737 202)	4.75-24.55	12.57
Cancelled	(209 925)	20.25-33.03	26.03
Outstanding, December 31, 2000	5 860 875	4.75-38.55	20.55
Exercisable, December 31			
1998	2 266 874	4.75-26.08	10.44
1999	2 609 816	4.75-26.98	12.89
2000	3 067 594	4.75-31.98	15.42

Available for Grant, December 31



The following table is an analysis of outstanding and exercisable common share options as at December 31, 2000:

Exercise Price	Number	OUTSTANDING		EXERCISABLE	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price Per Share	Number	Weighted Average Exercise Price Per Share
4.75-10.44	572 148	3	7.91	572 148	7.91
10.55-15.69	1 595 815	5	13.43	1 595 815	13.43
20.25-24.85	1 695 992	7	22.15	800 230	22.96
26.08-26.98	1 094 290	6	26.11	41 334	26.96
28.12-38.55	902 630	9	31.45	58 067	31.94
Total	5 860 875	6	20.55	3 067 594	15.42

(iii) Fair value of options granted

The weighted average fair value of common share options granted in 2000 is \$7.12 per share (1999 – \$7.01 per share; 1998 – \$9.05 per share). The fair value of common share options granted is estimated as at the grant date using the Black-Scholes option-pricing model, using the following assumptions:

	2000	1999	1998
Dividend	\$0.34/ share	\$0.34/ share	\$0.34/ share
Risk-free interest rate	6.45%	4.89%	5.31%
Expected life	7 years	7 years	7 years
Expected volatility	37%	32%	32%

18. FINANCIAL INSTRUMENTS**(a) Balance sheet financial instruments**

The company's financial instruments recognized in the consolidated balance sheets consist of cash and cash equivalents, accounts receivable, derivative contracts not accounted for as hedges, investment in CPM and SPP, substantially all current liabilities, except for income taxes payable and future income taxes, and long-term borrowings.

The estimated fair values of recognized financial instruments have been determined based on the company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction.

The fair values of cash and cash equivalents, accounts receivable and current liabilities approximate their carrying amounts due to the short-term maturity of these instruments.

At December 31, 2000, the company had outstanding crude oil and U.S. dollar swap contracts maturing in July 2004, fixing the purchase price of 2 130 000 barrels of crude oil at Cdn\$49 million. These derivative contracts, which have not been accounted for as hedges, had a fair value and carrying value of \$10 million at December 31, 2000 (1999 – \$(2) million; 1998 – \$nil).

The fair value of the company's investment in the shares of CPM and SPP is not determinable. Information about the terms, conditions and characteristics of this investment is presented in note 2.

The following table summarizes estimated fair value information about the company's long-term borrowings at December 31:

	2000		1999		1998	
(\$ millions)	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings						
– fixed rate	525	528	525	516	525	548
– variable rate	1 482	1 482	695	695	698	698
– Sunoco joint ventures	3	3	4	4	4	4
– Stuart Oil Shale Project	73	73	82	82	71	71
– capital leases	109	109	—	—	—	—

The fair value of the company's fixed rate long-term borrowings, which are publicly traded, is based on quoted market prices. The fair value of the company's variable rate long-term borrowings, capital leases, proportionate share of the long-term borrowings of its Sunoco joint ventures, and the Stuart Oil Shale Project borrowings approximates the carrying amount.

(b) Unrecognized derivative financial instruments

The company is also a party to certain derivative financial instruments which are not recognized in the consolidated balance sheets, as follows:

Revenue and margin hedges

The company enters into crude oil and foreign currency swap and option contracts to protect its future Canadian dollar earnings and cash flows from the potential adverse impact of low petroleum prices and an unfavourable U.S./Canadian dollar exchange rate. These contracts reduce fluctuations in

sales revenues by locking in fixed prices, or a range of fixed prices, and exchange rates on the portion of its crude oil sales covered by the contracts. The company also enters into crude oil and heating oil swap contracts to lock in fixed margins on the portion of refined product sales covered by the contracts. While these contracts reduce the risk of exposure to adverse changes in commodity prices and exchange rates, they also reduce the potential benefit of favourable changes in commodity prices and exchange rates.

The contracts do not require the payment of premiums or cash margin deposits prior to settlement. On settlement, these contracts result in cash receipts or payments by the company for the difference between the contract and market rates for the applicable dollars and volumes hedged during the contract term. Such cash receipts or payments offset corresponding decreases or increases in the company's sales revenues or crude oil purchase costs. For accounting purposes, amounts received or paid on settlement are recorded as part of the related hedged sales or purchase transactions.

Contracts outstanding at December 31 were as follows:

Contract Amounts

(\$ millions except for average price)	Quantity	Average price* Cdn\$	Revenue hedged Cdn\$	Hedge period
REVENUE HEDGES				
As at December 31, 2000				
Crude oil swaps and options*	42 710 bbl/day	28	436	2001
	4 790 bbl/day	20 (a)	35 (a)	2001
	10 000 bbl/day	26-32 (a)	95-117 (a)	2001
	41 000 bbl/day	28	426	2002
	7 000 bbl/day	22-26 (a)	56-66 (a)	2002
As at December 31, 1999				
Crude oil swaps*	52 655 bbl/day	26	503	2000
	9 845 bbl/day	19 (a)	67 (a)	2000
	35 000 bbl/day	26	327	2001
	4 000 bbl/day	26	38	2002
U.S. dollar swaps	U.S.\$81	1.41	114	2001
	U.S.\$289	1.41	408	2002
As at December 31, 1998				
Crude oil swaps*	23 700 bbl/day	28	242	1999
	6 000 bbl/day	28	61	2000
U.S. dollar swaps	U.S.\$115	1.39	160	1999
	U.S.\$274	1.39	381	2000
	U.S.\$312	1.41	440	2001
	U.S.\$314	1.42	446	2002

* Average price for crude oil swaps is WTI per barrel at Cushing, Oklahoma.

(a) Average price and revenue hedged is in U.S. dollars

(\$ millions except for average margin)	Quantity	Average margin U.S.\$/bbl.	Margin hedged U.S.\$	Hedge period
MARGIN HEDGES				
Refined product sale and crude purchase swaps	6 575 bbl/day	5	12	2001

Interest rate hedges

The company enters into interest rate and cross-currency interest rate swap contracts as part of its risk management strategy to minimize exposure to interest rate fluctuations. The interest rate swap contracts involve an exchange of floating rate and fixed rate interest payments between the company and a financial institution. The cross-currency swap contracts involve an exchange of Canadian dollar interest payments and U.S. dollar interest payments between the company and a financial institution, and an exchange of Canadian and U.S. dollar principal amounts at the maturity date of the underlying borrowing to which the swaps relate. The swap transactions are completely independent from and have no direct effect on the relationship between the company and its lenders. The differentials on the exchange of periodic interest payments are recognized in the accounts as an adjustment to interest expense.

The notional amounts of interest rate and cross-currency interest rate swap contracts outstanding at December 31, 2000 are detailed in note 11, Long-Term Borrowings.

Fair value of unrecognized derivative financial instruments

The fair value of these hedging derivative financial instruments is the estimated amount, based on brokers' quotes, that the company would receive (pay) to terminate the contracts. Such amounts, which also represent the unrecognized and unrecorded gain (loss) on the contracts, were as follows at December 31:

(\$ millions)	1999	1998
Revenue hedge		
swaps and options	(247)	(136)
Margin hedge swaps	(11)	—
U.S. dollar swaps	—	(1)
Interest rate and cross-currency interest rate swaps	5	—
	(253)	(137)
		(21)

Counterparty credit risk

The company may be exposed to certain losses in the event that counterparties to the derivative financial instruments are unable to meet the terms of the contracts. The company's exposure is generally limited to those counterparties holding derivative contracts with positive fair values at the reporting date. The company minimizes this risk by entering into agreements only with highly rated financial institutions, and through regular management review of potential exposure to, and credit ratings of, such financial institutions. At December 31, 2000, the company had exposure to credit risk with counterparties as follows:

(\$ millions)	
Derivative contracts not accounted for as hedges	8
Unrecognized derivative contracts	—
	8

Oil Sands Operations

(unaudited)

Oil Sands Operations															
(\$ millions except per share amounts)	For the quarter ended					For the quarter ended					For the quarter ended				
	Mar	June	Sept	Dec	Total year	Mar	June	Sept	Dec	Total year	Mar	June	Sept	Dec	Total year
	31	30	30	31	2000	31	30	30	31	1999	31	30	30	31	1998
Revenues	779	820	862	927	3 388	469	564	639	715	2 387	543	498	531	498	2 070
Net earnings (loss)															
Oil Sands	90	81	76	68	315	17	34	43	73	167	49	29	34	33	145
Natural Gas	8	16	43	31	98	3	13	20	5	41	3	4	7	10	24
Sunoco	19	20	19	23	81	5	3	12	7	27	7	16	7	7	37
Corporate and eliminations	(12)	(6)	(88)	(11)	(117)	(14)	(17)	(5)	(13)	(49)	(12)	(6)	(1)	(9)	(28)
	105	111	50	111	377	11	33	70	72	186	47	43	47	41	178
Per common share															
– net earnings attributable to common shareholders															
– basic	0.45	0.47	0.19	0.47	1.58	0.04	0.12	0.29	0.29	0.74	0.22	0.19	0.21	0.19	0.81
– diluted	0.45	0.47	0.19	0.46	1.57	0.04	0.12	0.29	0.28	0.73	0.22	0.19	0.21	0.18	0.80
– cash dividends	0.085	0.085	0.085	0.085	0.34	0.085	0.085	0.085	0.085	0.34	0.085	0.085	0.085	0.085	0.34
Cash flow provided from (used in) operations															
Oil Sands	199	181	156	119	655	53	90	104	158	405	96	74	86	64	320
Natural Gas	48	42	64	84	238	42	43	39	48	172	39	36	42	50	167
Sunoco	46	38	49	41	174	23	17	37	26	103	24	39	26	23	112
Corporate and eliminations	(24)	(17)	(40)	(28)	(109)	(25)	(21)	(33)	(10)	(89)	(15)	(11)	16	(9)	(19)
	269	244	229	216	958	93	129	147	222	591	144	138	170	128	580
Oil Sands Operations															
(\$ millions except per share amounts)	For the quarter ended					For the quarter ended					For the quarter ended				
	Mar	June	Sept	Dec	Total year	Mar	June	Sept	Dec	Total year	Mar	June	Sept	Dec	Total year
	31	30	30	31	2000	31	30	30	31	1999	31	30	30	31	1998
OIL SANDS															
Production (a)	114.8	116.7	114.2	110.0	113.9	95.5	112.0	101.5	113.2	105.6	91.8	90.8	96.9	94.7	93.6
Sales (a)															
– light sweet crude oil	67.7	64.3	61.4	64.0	64.3	54.6	41.3	52.1	62.8	52.7	64.5	52.0	59.5	59.3	58.8
– diesel	8.7	8.6	8.9	11.0	9.3	7.9	6.8	8.4	9.5	8.2	10.8	8.7	9.7	9.6	9.7
– light sour crude oil	41.5	45.2	42.6	38.5	42.0	28.8	54.8	47.5	35.1	41.3	20.1	31.5	30.0	24.8	26.6
	117.9	118.1	112.9	113.5	115.6	91.3	102.9	108.0	107.4	102.2	95.4	92.2	99.2	93.7	95.1
Average sales price (b)															
– light sweet crude oil	34.35	33.54	36.21	37.22	35.31	20.55	24.47	27.23	30.81	26.06	24.46	22.83	22.90	20.91	22.80
– other (diesel and light sour crude oil)	28.46	28.22	27.84	23.71	27.09	19.18	19.60	21.45	25.91	21.48	22.69	19.75	21.65	20.89	21.16
– total	31.84	31.12	32.39	31.33	31.67	20.00	21.57	24.24	28.77	23.84	23.89	21.49	22.40	20.90	22.18
– total *	39.19	39.40	43.41	43.27	41.29	18.52	22.29	27.56	33.72	25.89	22.41	19.60	20.68	18.78	20.37
Cash operating costs (1) (c)	11.10	12.20	14.50	16.40	13.55	12.55	10.90	12.35	11.15	11.70	11.20	11.35	11.25	13.00	11.75
Total operating costs (2) (c)	15.50	16.60	18.55	19.50	17.25	15.60	14.30	15.30	15.10	15.05	13.30	14.20	14.55	13.80	14.00

Operating Data (Cont.)

(\$ millions except per share amounts)	For the quarter ended					Total year	For the quarter ended					Total year	For the quarter ended					Total year
	Mar	June	Sept	Dec	2000	2000	Mar	June	Sept	Dec	1999	1999	Mar	June	Sept	Dec	1998	1998
	31	30	30	31			31	30	30	31			31	30	30	31		
	2000	2000	2000	2000	2000	2000	1999	1999	1999	1999	1999	1999	1998	1998	1998	1998	1998	1998
NATURAL GAS																		
Gross production**																		
Conventional																		
– natural gas (d)	222	195	200	183	200		229	225	231	219	226	258	241	247	244	247		
– natural gas liquids (a)	3.5	3.1	2.8	2.5	3.0		4.7	4.1	4.1	4.0	4.2	5.3	5.1	4.8	4.6	4.9		
– crude oil (a) ***	8.1	3.5	3.6	1.6	4.2		10.8	9.7	8.4	7.9	9.2	11.2	11.3	11.5	11.6	11.4		
– total (e)	33.8	26.1	26.4	22.4	27.2		38.4	36.3	35.6	33.8	36.0	42.3	40.5	41.0	40.6	41.0		
Average sales price																		
– natural gas (f)	2.96	3.70	4.63	8.02	4.72		2.18	2.15	2.48	2.96	2.44	1.75	1.83	1.90	2.33	1.95		
– natural gas (f) *	2.97	3.70	4.62	8.05	4.73		2.10	2.17	2.58	3.11	2.48	1.74	1.83	1.86	2.36	1.95		
– natural gas liquids (b)	33.16	32.80	39.56	43.00	36.66		11.88	16.70	22.81	27.12	19.32	18.70	14.77	13.06	13.64	15.13		
– crude oil – conventional (b)	26.30	30.04	33.09	36.01	29.50		18.48	20.48	20.55	25.21	20.94	21.27	19.50	20.49	19.35	20.14		
– crude oil – conventional (b) *	38.23	38.65	42.31	44.35	39.80		16.28	21.89	28.01	32.72	24.01	18.97	16.52	17.68	16.34	17.37		
SUNOCO																		
Refined product																		
sales (g) ****	14.3	15.1	14.0	15.2	14.6		13.1	14.1	13.9	14.2	13.8	13.7	13.8	14.0	13.8	13.8		
Natural gas sales (d)	84	78	74	95	83		93	86	87	90	89	89	88	83	92	88		
Margins—refining (3) (h)	5.4	6.3	6.1	5.8	5.9		3.4	3.3	4.8	4.3	4.0	3.8	4.7	3.9	3.8	4.1		
– retail (4) (h)	6.8	6.4	6.4	7.0	6.6		7.9	7.6	6.9	7.2	7.4	6.4	7.0	6.9	7.9	7.0		
Utilization of refining capacity (%)	102	99	96	95	98		97	93	100	92	95	96	99	98	102	99		

* Excludes the impact of hedging activities.

** Currently all Natural Gas production is located in the Western Canada Sedimentary Basin.

*** Before deducting 2000 Alberta Crown royalty of 0.5 thousand barrels per day (1999 – 0.9 thousand barrels per day; 1998 – 0.9 thousand barrels per day).

**** Excludes sales through joint venture interests.

Definitions

- (1) Cash operating costs – operating, selling and general expenses, crude oil and products purchases, taxes other than income taxes, start-up expenses and overburden cash expenditures for the period.
- (2) Total operating costs – cash and non-cash operating costs (total Oil Sands expenses less royalties in Schedules of Segmented Data on page 62).
- (3) Refining margin – average wholesale unit price from all products minus average unit cost of crude oil.
- (4) Retail margin – average street price of Sunoco-branded retail gasoline minus refining gasoline price.

(a) thousands of barrels per day
(b) dollars per barrel
(c) dollars per barrel sold rounded
to the nearest \$0.05

(d) millions of cubic feet per day
(e) BOE per day
(f) dollars per thousand cubic feet

(g) thousands of cubic metres per day
(h) cents per litre

Metric conversion

Crude oil, refined products, etc.
Natural gas

1m³ (cubic metre) = approx. 6.29 barrels
1m³ (cubic metre) = approx. 35.49 cubic feet

Five-Year Financial Summary

(unaudited)

(\$ millions except for ratios)	2000	1999	1998	1997	1996
Revenues					
Oil Sands	1 336	889	768	751	766
Natural Gas	428	306	290	302	264
Sunoco	2 604	1 779	1 533	1 673	1 638
Corporate and eliminations	(980)	(587)	(521)	(572)	(568)
	3 388	2 387	2 070	2 154	2 100
Net earnings (loss)					
Oil Sands	315	167	145	175	162
Natural Gas	98	41	24	23	22
Sunoco	81	27	37	36	31
Corporate and eliminations	(117)	(49)	(28)	(20)	(32)
	377	186	178	214	183
Cash flow provided from (used in) operations					
Oil Sands	655	405	320	331	318
Natural Gas	238	172	167	162	146
Sunoco	174	103	112	121	90
Corporate and eliminations	(109)	(89)	(19)	(39)	(63)
	958	591	580	575	491
Capital and exploration expenditures					
Oil Sands	1 808	1 057	507	491	321
Natural Gas	127	200	242	240	187
Sunoco	45	42	60	54	55
Corporate	18	51	127	62	--
	1 998	1 350	936	847	563
Total assets	6 833	5 176	4 104	3 457	2 824
Capital employed*					
Debt					
Short-term borrowings	64	32	16	36	24
Current portion of long-term borrowings	1	1	1	6	6
Long-term borrowings	2 192	1 306	1 298	767	395
Shareholders' equity	2 472	2 108	1 499	1 391	1 246
	4 729	3 447	2 814	2 200	1 671
Less capitalized costs related to major projects in progress	(2 497)	(1 084)	(373)	(599)	(157)
	2 232	2 363	2 441	1 601	1 514
Ratios					
Per common share (dollars)					
– net earnings attributable to common shareholders	1.58	0.74	0.81	0.98	0.84
– cash dividends	0.34	0.34	0.34	0.34	0.34
– cash flow provided from operations	4.32	2.68	2.64	2.62	2.25
– cash flow provided from operations attributable to common shareholders	4.11	2.51	2.64	2.62	2.25
Return on capital employed (%) *	16.6	8.3	9.5	14.3	13.4
Return on shareholders' equity (%) *	16.5	10.3	12.3	16.2	15.4
Debt to debt plus shareholders' equity (%)	47.7	38.9	46.7	36.8	25.4
Debt to cash flow provided from operations (times)	2.3	2.3	2.2	1.4	0.9
Interest coverage – cash flow basis *	8.8	8.8	8.7	15.4	21.9

* Definitions

Capital employed – see page 62.

Return on shareholders' equity – earnings as a percentage of average shareholders' equity. Average shareholders' equity is the aggregate of total shareholders' equity at the beginning and end of the year divided by two.

Interest coverage – cash flow basis – cash provided from operations before interest expense and income tax payments, divided by interest expense plus interest capitalized.

Supplemental Financial and Operating Information

(unaudited)

		1999	1998	1997	1996
OIL SANDS					
Production (thousands of barrels per day)	113.9	105.6	93.6	79.4	77.6
Sales (thousands of barrels per day)					
Light sweet crude oil	64.3	52.7	58.8	53.5	56.5
Diesel	9.3	8.2	9.7	10.0	10.0
Light sour crude oil	42.0	41.3	26.6	14.6	11.5
	115.6	102.2	95.1	78.1	78.0
Average sales price (dollars per barrel)					
Light sweet crude oil	35.31	26.06	22.80	26.65	26.67
Other (diesel and light sour crude oil)	27.09	21.48	21.16	25.74	27.27
Total	31.67	23.84	22.18	26.36	26.84
Total*	41.29	25.89	20.37	27.98	29.32
Cash operating costs					
(dollars per barrel rounded to the nearest \$0.05)**	13.55	11.70	11.75	13.25	12.40
Total operating costs					
(dollars per barrel rounded to the nearest \$0.05)**	17.25	15.05	14.00	15.80	14.80
Other oil sands statistics					
Overburden removed (millions of cubic metres)	30.7	22.5	22.2	17.5	12.4
Oil sands mined (millions of tonnes)	84.9	72.9	62.4	54.1	51.1
Average bitumen content of oil sands mined (percent by weight)	11.1	11.6	11.6	12.7	12.1
Average crude yield of oil sands mined (barrels per tonne)	.491	.529	.547	.535	.556

* Excludes the impact of hedging activities

** See definitions on page 79.

Synthetic Crude Oil Gross Reserves*

(millions of barrels)	Proved Reserves	Probable Reserves	Total
December 31, 1996	147	—	147
December 31, 1997	338	463	801
Revisions	(2)	1	(1)
Production	(34)	—	(34)
December 31, 1998	302	464	766
Revisions	(10)	(13)	(23)
Additions	222	1 577	1 799
Production	(38)	—	(38)
December 31, 1999	476	2 028	2 504
Revisions	(13)	6	(7)
Production	(41)	—	(41)
December 31, 2000	422	2 034	2 456

Gross proved reserves do not reflect deductions in respect of Crown and applicable sublease royalties. Under the Crown Royalty Agreement, the Crown royalty rate is dependent on deemed net revenues; therefore, calculations of the net reserves would vary depending upon assumed production rates, prices and operating and capital costs.

* In January 1997, the company received approval from the Alberta Energy and Utilities Board to mine its Steepbank leases. Reserve estimates are based upon a detailed geological assessment, including drilling and laboratory analysis. Estimates also reflect the integrated nature of the operation, and therefore reflect demonstrated productive capacity, upgrading yield, plans for increased output, operating life and regulatory constraints. Production from Steepbank leases commenced in the fourth quarter of 1998.

Supplemental Financial and Operating Information

(unaudited)

	2000	1999	1998	1997	1996
NATURAL GAS					
Production					
CONVENTIONAL					
Natural gas (millions of cubic feet per day)					
– gross	200	226	247	240	226
– net	142	170	195	199	185
Natural gas liquids (thousands of barrels per day)					
– gross	3.0	4.2	4.9	5.0	5.3
– net	2.1	3.0	3.7	3.5	3.8
Crude oil (thousands of barrels per day)					
– gross	4.2	9.2	11.4	10.7	11.0
– net	3.3	7.5	9.4	8.6	8.7
Total (thousands of BOE* per day)					
– gross	27.2	36.0	41.0	39.7	38.9
– net	19.6	27.5	32.6	32.0	31.0
Average sales price					
Natural gas (dollars per thousand cubic feet)	4.72	2.44	1.95	1.93	1.50
Natural gas (dollars per thousand cubic feet) **	4.73	2.48	1.95	1.94	1.63
Natural gas liquids (dollars per barrel)	36.66	19.32	15.13	22.45	21.31
Crude oil					
– conventional (dollars per barrel)	29.50	20.94	20.14	22.75	23.74
– conventional (dollars per barrel) **	39.80	24.01	17.37	24.80	26.84
Undeveloped land holdings ***					
Oil and gas – western provinces (millions of acres)					
– gross	1.4	1.5	1.7	1.7	1.4
– net	1.1	1.2	1.3	1.3	1.1
Net wells drilled ****					
Conventional					
Exploratory – oil	—	1	2	7	3
– gas	1	5	10	10	8
– dry	15	13	18	25	21
Development – oil	2	2	15	26	22
– gas	14	4	16	10	15
– dry	3	1	8	4	6
	35	26	69	82	75

* Barrel of oil equivalent – converts gas to oil on the approximate long-term economic equivalent basis that 10,000 cubic feet equals one barrel of oil.

** Excludes the impact of hedging activities.

*** Metric conversion: Land holdings – 1 hectare = approximately 2.5 acres.

**** Excludes interests in two net exploratory and six net development wells in progress at the end of 2000.

Oil and Gas Data

The following supplemental oil and gas disclosure is provided in accordance with the provisions of the United States Statement of Financial Accounting Standards (SFAS) No. 69. This statement requires disclosure about conventional oil and gas activities only, and therefore the company's oil sands

activities are excluded. Additional information required by SFAS No. 69 is included in the company's Form 40-F report, which is filed in the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system of the U.S. Securities and Exchange Commission (SEC). This information can be accessed on the internet at www.freeedgar.com.

Reserves	Gross		Net	
	Crude oil and natural gas liquids	Natural gas	Crude oil and natural gas liquids	Natural gas
	(millions of barrels)	(billions of cubic feet)	(millions of barrels)	(billions of cubic feet)
Proved				
December 31, 1996	65	995	51	754
December 31, 1997	70	1 088	56	850
Revisions of previous estimates	—	(16)	—	(30)
Extensions and discoveries	6	232	5	177
Production	(6)	(90)	(5)	(69)
Sales of minerals in place	(1)	(17)	—	(13)
December 31, 1998	69	1 197	56	915
Revisions of previous estimates	(2)	(103)	(2)	(80)
Purchases of minerals in place	—	1	—	1
Extensions and discoveries	—	53	—	41
Production	(5)	(82)	(4)	(68)
Sales of minerals in place	(11)	(53)	(9)	(45)
December 31, 1999	51	1 013	41	764
Revisions of previous estimates	(3)	(52)	(6)	(81)
Purchases of minerals in place	—	9	—	7
Extensions and discoveries	1	39	1	28
Production	(3)	(73)	(2)	(52)
Sales of minerals in place	(30)	(139)	(23)	(99)
December 31, 2000	16	797	11	567
Proved developed				
December 31, 1996	54	675	42	514
December 31, 1997	55	727	44	568
December 31, 1998	53	730	43	557
December 31, 1999	38	627	30	471
December 31, 2000	13	573	10	414

1. Proved reserves are considered recoverable under current technology and existing economic conditions, from reservoirs that are evaluated on known drilling, geological, geophysical and engineering data.

Proved developed reserves are on production, or reserves that could be recovered from existing wells or facilities, if the company placed them on production.

2. Gross reserves are before deducting royalties. Net reserves are after deducting royalties. Royalties can vary depending upon factors such as prices, production volumes, timing of initial production and changes in legislation.

All reserves are located in Canada. There has been no major discovery or other favourable or adverse event that caused a significant change in estimated proved reserves since December 31, 2000. The company has no long-term supply agreements or contracts with governments or authorities in which it acts as producer nor does it have any interest in oil and gas operations accounted for by the equity method.

Standardized Measure of Discounted Future Net Cash Flows from Estimated Production of Proved Oil and Gas Reserves after Income Taxes

(\$ millions)	2000	1999	1998
At December 31	1 933	749	797

Supplemental Financial and Operating Information

(unaudited)

	2000	1999	1998	1997	1996
SUNOCO					
Refined product sales (thousands of cubic metres per day)					
Transportation fuels					
Gasoline – retail*	4.2	4.1	4.1	3.8	3.8
– other	4.0	3.7	3.5	3.3	3.5
Jet fuel	1.1	1.1	1.0	1.2	1.1
Diesel	3.1	2.7	2.5	2.6	2.3
	12.4	11.6	11.1	10.9	10.7
Petrochemicals	0.6	0.7	0.7	0.7	0.9
Heating oils	0.4	0.4	0.6	1.0	0.7
Heavy fuel oils	0.6	0.5	0.7	0.7	0.6
Other	0.6	0.6	0.7	0.9	0.6
	14.6	13.8	13.8	14.2	13.5
Natural gas sales (millions of cubic feet per day)	83	89	88	14	—
Margins (cents per litre)					
Refining	5.9	4.0	4.1	4.6	4.4
Retail	6.6	7.4	7.0	6.8	5.7
Crude oil supply and refining					
Processed at Suncor Energy refinery (thousands of cubic metres per day)	10.9	10.6	11.0	10.8	10.6
Utilization of refining capacity (%)	98	95	99	97	95
Retail outlets **(number at year-end)	402	415	423	441	452
* Excludes sales through joint venture interests.					
** Sunoco-branded service stations, other private brands managed by Sunoco and Sunoco's interest in service stations managed through joint ventures. Outlets are located mainly in Ontario.					
EMPLOYEES (number at year-end)	3 043	2 796	2 659	2 439	2 324

Share Trading Information

(unaudited)

The following share trading information reflects a two-for-one split of the company's common shares during 2000.

	For the quarter ended				For the quarter ended			
	Mar 31 2000	June 30 2000	Sept 30 2000	Dec 31 2000	Mar 31 1999	June 30 1999	Sept 30 1999	Dec 31 1999
Share ownership								
Average number outstanding, weighted monthly (thousands) (1)	221 064	221 265	221 562	221 773	220 466	220 816	221 002	221 020
Share price (dollars) (2)								
Toronto Stock Exchange								
High	34.95	36.90	39.80	38.80	26.10	30.85	31.75	31.45
Low	27.25	31.20	30.50	29.40	19.80	24.10	27.95	26.00
Close	31.45	34.20	33.20	38.30	25.40	30.20	28.00	30.20
New York Stock Exchange – U.S.\$								
High	22.00	24.95	26.75	26.40	17.25	21.00	21.45	21.40
Low	18.50	20.80	20.50	19.40	13.15	16.15	19.00	17.65
Close	21.25	23.25	22.15	25.70	16.75	20.60	19.55	20.90
Shares traded (thousands)								
Toronto Stock Exchange	42 976	32 903	37 181	43 177	55 234	32 060	32 762	24 030
New York Stock Exchange	3 014	3 268	2 371	2 851	1 932	2 632	3 088	1 952
Per common share information (dollars)								
Net earnings attributable to common shareholders	0.45	0.47	0.19	0.47	0.04	0.12	0.29	0.29
Cash dividends	0.085	0.085	0.085	0.085	0.085	0.085	0.085	0.085

(1) The company had approximately 1,177 holders of record of common shares as at January 31, 2001.

(2) The company's common shares are traded on the Toronto and New York stock exchanges.

Information for Security Holders Outside Canada

Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to Canadian non-resident withholding tax of 15%.

The withholding tax rate is reduced to 5% on dividends paid to a corporation if it is a resident of the United States that owns at least 10% of the voting shares of the company.

Stock Trading Symbols and Exchange Listings

Common shares (SU) listed on Toronto and New York exchanges. 9.05% Preferred Securities (SU.PR.A) listed on Toronto exchange. 9.125% Preferred Securities (SU.A) listed on New York exchange.

Dividends

Suncor's Board of Directors reviews its dividend policy from time to time. In 2000, a dividend of \$0.34 per share was paid (\$0.085 quarterly).

Dividend Reinvestment and Common Share Purchase Plan

Suncor's Dividend Reinvestment and Common Share Purchase Plan provides an efficient and cost-effective way for shareholders to increase their investment in Suncor. The plan enables shareholders to invest cash dividends in common shares or acquire additional shares through optional cash payments without payment of brokerage commissions, service charges or any other costs associated with administration of the plan. To obtain additional information, please call Computershare Trust Company of Canada at 1-888-267-6555, and a brochure more fully describing the plan will be forwarded to you.

Stock Transfer Agent and Registrar

In Canada, Computershare Trust Company of Canada has locations in Calgary, Edmonton, Toronto, Montreal and Vancouver. In the United States, Computershare Trust Company, Inc. office is in Denver, CO.

Annual Meeting

The annual meeting of shareholders will be held at 10:30 a.m. MST on April 18, 2001, at The Fairmont Palliser Hotel, Calgary, Alberta.

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To obtain Annual and Quarterly Reports

Telephone: 1-800-558-9071

Sometimes our shareholders receive more than one copy of our annual report in the mail because their shares are registered in different names or addresses. We make every effort to avoid duplication. If you receive but do not require more than one mailing for the same share ownership, call Computershare Trust Company of Canada at 1-888-267-6555 to make arrangements to combine your accounts.

We Care – the release of Suncor's environmental, health and safety report

Suncor published its third "We Care" report in 1999. It contains the latest information about Suncor's record of performance on its journey toward sustainable development. A revised version will be published in 2001. To receive a copy, call 1-800-558-9071 or access the complete document on Suncor's website: www.suncor.com



Suncor Energy is a member of the World Business Council for Sustainable Development.

We make changes to each year's annual report based on feedback from our readers. Once again, we would appreciate your comments on how we might improve. Please take a few minutes to evaluate our report.

1. Suncor's report was easy to read and understand.
☐ Strongly Agree ☐ Disagree
☐ Agree ☐ Strongly Disagree
2. The report contained all the information I needed to know.
☐ Strongly Agree ☐ Disagree
☐ Agree ☐ Strongly Disagree
3. The report provided the right level of detail.
☐ Strongly Agree ☐ Disagree
☐ Agree ☐ Strongly Disagree
4. After reading the annual report, what is your opinion of Suncor?

5. Next year's annual report could be improved by:

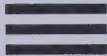
6. I would like to receive more information about Suncor:
(Please note: all the materials listed below, plus much more, are available on Suncor's website at www.suncor.com)

- ☐ Quarterly Report
☐ Environmental Report
☐ Suncor's Position on Global Climate Change
☐ Dividend Reinvestment and Common Share Purchase Plan
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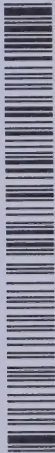
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CALGARY AB T2P 9Z9

Corporate Directors and Officers

OFFICERS

J. KENNETH ALLEY

Vice President,
Finance

M. (MIKE) ASHAR

Executive Vice President,
Oil Sands

DAVID W. BYLER

Executive Vice President,
Natural Gas

RICHARD L. GEORGE

President and
Chief Executive Officer

TERRENCE J. HOPWOOD

Vice President, General Counsel
and Secretary

SUE LEE

Senior Vice President,
Human Resources and Communications

MICHAEL W. O'BRIEN

Executive Vice President, Corporate
Development and Chief Financial Officer

JANICE B. ODEGAARD

Assistant Secretary

THOMAS L. RYLEY

Executive Vice President,
Sunoco

BARRY D. STEWART

Executive Vice President,
In-situ and International Oil

W. ROBERT WYMAN

Chairman of the Board

DIRECTORS



MEL E. BENSON

Calgary, Alberta
Management Consultant



BRIAN A. CANFIELD

Point Roberts, Washington
Chairman
TELUS Corporation



BRYAN P. DAVIES

Toronto, Ontario
Senior Vice President,
Regulatory Affairs
Royal Bank of Canada



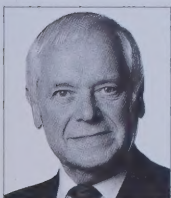
JOHN T. FERGUSON

Edmonton, Alberta
Chairman
Princeton Developments Ltd.
Chairman
TransAlta Corporation



RICHARD L. GEORGE

Calgary, Alberta
President and
Chief Executive Officer
Suncor Energy Inc.



POUL HANSEN

Vancouver, British Columbia
Chairman and
General Manager
Sperling Hansen
Associates Inc.



JOHN R. HUFF

Houston, Texas
Chairman and
Chief Executive Officer
Oceaneering
International, Inc.



MICHAEL M. KOERNER

Toronto, Ontario
President
Canada Overseas
Investments Limited



ROBERT W. KORTHALS

Toronto, Ontario
Corporate Director



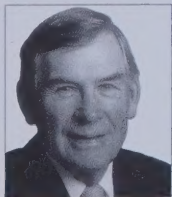
M. ANN MCCAIG

Calgary, Alberta
President
VPI Investments Ltd.



JR SHAW

Calgary, Alberta
Executive Chair
Shaw Communications Inc.



W. ROBERT WYMAN

West Vancouver,
British Columbia
Chairman of the Board
Suncor Energy Inc.



IN MEMORIAM

BILL N. RUTHERFORD (1932 - 2001)

It was with great sadness that we marked the passing of Bill Rutherford in January 2001. Bill had been a member of Suncor's Board of Directors since 1988, where his experience and knowledge added greatly to the Board and the committees he chaired.

From 1981 until his retirement in 1993, he was senior vice president, human resources and administration of Sun Company, Inc. Bill's sense of humour and his ability to listen and provide astute guidance will be sorely missed by his many friends at Suncor.

the energy difference

growth  resources  profitability  integration  sustainability

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